



Grant Thornton

Consolidated Financial
Statements
Gamma Telecom Holdings
Limited

For the year ended 31 December 2009

Company information

Company registration number	4287779
Registered office	5 Fleet Place LONDON EC4M 7RD
Directors	K E Kuok M Sofaer M J C Stone C R H Stone KC Tse R M Falconer G Sreeves C S McGregor S J Burton
Secretary	G Sreeves
Bankers	HSBC Bank Plc 60 Queen Victoria Street LONDON EC4N 4TR
Solicitors	Charles Russell 5 Fleet Place LONDON EC4M 7RD
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditor 1 Westminster Way OXFORD OX2 0PZ

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Chairman's statement

Despite the economic recession, 2009 was another successful year for the Gamma Group. Gross profit increased from £32.0m (20.0%) in 2008 to £33.4m (23.6%) in 2009; EBITDA increased from £5.7m in 2008 to £6.5m in 2009; and positive free cash flow held steady at £4.1m in 2009 (2008: £4.1m).

As a consequence the Group declared an operating profit (PBIT) for 2009 of £2.6m (2008: £0.2m loss) and reduced net debt to £1.6m (2008: £5.7m).

Net cash inflow from operating activities in 2009 was £7.3m. After interest payments, taxation and capital expenditure the cash inflow before financing was £4.1m (2008: £4.1m), demonstrating consistent cash generation.

Turnover reduced from £160.2m in 2008 to £141.3m reflecting both the acquisition of Tiscali (which was Gamma Telecom's largest customer) by Carphone Warehouse in July and the cautious approach taken by management to credit risk during a recessionary period. We have noted that overall the recession has reduced call volumes in the sector by circa 6%.

The balance of margins however continues to shift favourably from traditional voice connectivity to software based call handling services embedded in the network. We have enjoyed rapid growth with Gamma's inbound call handling products Contact Point and Contact Path, which have been very well received by the market, and the release in early 2010 of the wholly owned product - Contact Pro - for the medium sized call centre market is expected to accelerate this trend.

We have also seen strong growth in next generation connectivity services - such as SIP trunking - where Gamma is the market leader.

The number of channel partners actively working with Gamma has now grown to around 550. Particularly encouraging has been the number of new entrants to the market, in part offsetting the consolidation seen elsewhere.

The Gamma strategy of excellence in a single set of automated systems remains a core strength relative to competitors that have grown through acquisition. This drives quality into our service and helps contain overhead growth whilst the business develops and diversifies.

The wholly owned subsidiary, Uniworld, continued to contribute positively to group cash generation. During 2009 Uniworld has honed its offering to the mid-market with some key customer wins in this area. This market, and particularly in the public sector, where Gamma's carbon neutral network has an advantage, will now be an area of major focus for this part of the business under the brand Uniworld Solutions.

Looking forward, we believe that the planned investments by BT Openreach (and others) to extend fibre optic cables to the local street cabinet and customer premises have the potential to be transformational for the industry and accelerate the move of software applications from the customer's site to the core of the network. By providing this Software as a Service (SaaS), Gamma is well placed to exploit the opportunities this will bring.

Charles McGregor
Chairman

Report of the directors

The directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2009.

Principal activities and business review

The Group is principally engaged in the provision of telephony services.

Strategy

Gamma's strategy is to focus on selling through the distribution channel and to increase both the number of partners and the share of their business they conduct with Gamma. This will be achieved by continuing to release exciting and innovative products, based on the next generation IP technology, that give the channel an edge by changing the way businesses can exploit telecommunications services.

Uniworld remains a downstream business focused on selling through agents to the small and medium sized business sector and operating on an arms length basis.

Key performance indicators

	2009	2008	Change
Turnover	£141.3m	£160.2m	-11.8%
Gross profit	£33.4m	£32.0m	+4.4%
Gross profit percentage	23.6%	20.0%	+18.0%
Earnings before interest, taxation, depreciation and amortisation	£6.5m	£5.7m	+14.0%
Profit/(loss) before taxation	£2.3m	£(1.1)m	N/A
Cash expenditure on capital equipment	£2.8m	£2.6m	+8.2%
Average headcount	263	252	+4.4%

Outlook

The growth of IP telephony technology and the advent of convergent (fixed/mobile) services will radically change the industry. Having little in the way of legacy technology and systems, coupled with strong channel relationships the Group is well positioned to exploit this opportunity and take a leading role in providing next generation services through its channel to the business market.

Financial overview

In difficult market conditions Gamma has seen reduced turnover at £141.3m (2008: £160.2m) but has increased the gross profit from £32.0m in 2008 to £33.4m in 2009 by focussing on higher margin customers and higher margin products. The directors are not recommending the payment of a dividend.

Turnover

Turnover has fallen to £141.3m in 2009 (2008: £160.2m). This was due in part to the loss of a major customer (Tiscali) but also due to the fact that the group has chosen not to chase low margin business and has exited from some opportunities which presented an unacceptable credit risk. The directors are not concerned by the reduction in top line revenue given the continued growth of higher margin products and services and the strong underlying performance of the business.

Gross profit

Gross profit increased by £1.4m to £33.4m in 2009 (2008: £32.0m), representing a gross profit percentage of 23.6% (2008: 20.0%). The directors attribute this increase to the focus on higher margin customers and the proportion of revenue coming from IP and software based products.

Operating costs

Gamma's operating costs excluding depreciation and amortisation were slightly higher in 2009 than in the previous year at £26.8m (2008: £26.3m). This is driven by continued investment in new products.

Capital expenditure

The total cash expenditure on fixed assets in 2009 was £2.8m (2008: £2.6m) giving Gamma the ability to deliver service on a fully IP based platform.

Cash flow

Net cash inflow from operating activities was £7.3m in 2009 (2008: £7.6m). After interest payments, taxation and capital expenditure the cash inflow before financing was £4.1m (2008: £4.1m) showing a consistent trend of strong cash generation.

Environmental policy

The Group's environmental policy is focussed on five areas:

- Gamma's commitment to reducing carbon emissions began in 2006 with the early adoption of IP based soft-switching in our core network, marking the first major initiative of its kind in the UK. Soft-switching has allowed us to move from a power-hungry hardware infrastructure to a more software driven environment which uses far less power. In 2009 the Group consumed 4.2m kwhr (2008: 4.3m kwhr). This is a reduction of 2% year on year. Continued investment in this technology enables us to continue to reduce the mean power consumption.
- A first in the UK telecoms market, as from 1 January 2009 all minutes carried across the Gamma Telecom network are Carbon Neutral, helping businesses, residential customers and public and voluntary sectors reduce their carbon footprint. Each year, Gamma's carbon footprint is independently assessed and we offset this footprint by purchasing carbon credits - every one tonne of CO₂ is 'neutralised' by one tonne which is saved somewhere else in the world by a climate friendly project that would not have happened without carbon credit investment. Projects that our carbon credits are being used on include the Sichuan Province Hydro Power Project in China and a Wind Power Project in India.
- Providing products that can help end customers reduce their carbon footprint, for example, by enabling more efficient home working.
- Good housekeeping and encouraging flexi-working to reduce travel.
- The company continues to support The Woodland Trust via corporate membership.

Principal risks and uncertainties

The directors set out the principal risks facing the business as follows:

Regulation

The UK telecoms market is subject to significant regulation through Ofcom, the industry regulator. A major part of Gamma's expenditure relates to regulated products that it buys from BT in markets where BT has significant market power. Decisions by the regulator can therefore have a significant effect on Gamma's performance.

Competition

The UK fixed line telecoms market is highly competitive despite a reduction in the number of network operators over the last few years. There is also currently some excess capacity on legacy voice networks which is affecting price levels.

Technological Advances

Gamma's strategy is based on the transition from traditional voice telephony to IP based technology and services. As with any technological change this brings some uncertainty and risk, including the uncertainty about the speed with which the market will adopt the new technology.

Financial risk management objectives and policies

The group is exposed to a variety of financial risks which result from both its operating and investing activities. The board is responsible for coordinating the group's risk management and focuses on actively securing the group's short to medium term cash flows.

The group does not actively engage in the trading of financial assets and has no financial derivatives.

Credit risk

The group's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of any allowance for doubtful debtors, estimated by the directors.

The group operates a strict credit vetting policy, basing its credit terms on a customer's payment history, financial performance and externally available credit data.

Cash flow risks

The group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by the use of an invoice discounting facility, which gives significant headroom over and above current funding needs. The group continues to enjoy very good relationships with its funders.

Directors

The directors who served the company during the year were as follows:

T B K Khoo (resigned 7 December 2009)
K E Kuok
M Sofaer
M J C Stone
C R H Stone
R M Falconer
G Sreeves
C S McGregor
M W de Villiers (resigned 2 December 2009)
S J Burton
KC Tse

Directors' and officers' liability insurance

The company, as permitted by s309A of the Companies Act 1985, maintains insurance cover on behalf of the directors and company secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company.

Directors' responsibilities

The directors are responsible for preparing the Report of the directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

ON BEHALF OF THE BOARD

G Sreeves
Director
10 March 2010



Report of the independent auditor to the members of Gamma Telecom Holdings Limited

We have audited the financial statements of Gamma Telecom Holdings Limited for the year ended 31 December 2009 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Director's responsibility statement in the Report of the directors, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the independent auditor to the members of Gamma Telecom Holdings Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns;
or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Janet Crookes
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford

Principal accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with applicable accounting policies and under the historical cost convention, except for the revaluation of certain financial instruments which are carried at fair value.

The principal accounting policies remain unchanged from the prior year and are set out below. The group continues to be cash generative, having reduced its net debt by £4.1m to £1.6m during 2009, and enjoys strong working relationships with its funders and with other potential sources of finance. The financial statements have therefore been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies.

Acquisitions are accounted for under the acquisition method and the results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

Goodwill

Positive purchased goodwill arising on acquisitions and goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life as follows:

Goodwill on consolidation	-	5% - 33% straight line
Purchased goodwill	-	33% straight line

Turnover

Turnover represents the amounts (excluding VAT) derived from the provisions of goods and services to customers during the year. Call revenue is recognised in the month in which calls are made. Revenue for fixed charges such as line rentals is recognised in the period to which it relates.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Network assets	-	7% - 33% straight line
Motor vehicles	-	25% straight line
Fixtures & fittings	-	20% - 25% straight line
Computer equipment	-	25% - 50% straight line

Capitalisation of internal costs

Employee time costs in respect of specific projects are capitalised to the extent that they are directly attributable to those projects and create an asset for on-going use within the business. These assets are then depreciated in accordance with the depreciation policy stated above.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account at a constant rate of charge on the balance of capital repayments outstanding.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by balance sheet date.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at the operating profit.

The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. All other exchange differences are dealt with through the profit and loss account.

Share options

In accordance with FRS 20 'Share based payments', the fair value of equity-settled share-based payments to employees is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The fair value is measured by use of the binomial pricing model. Further details are set out in note 21.

Provisions

Provisions are created for dilapidations in respect of property leases where the building (which is the subject of the lease) has to be returned to the landlord in a defined condition. The total cost of rectification is estimated and the provision is built up over the remaining length of the lease. Once the stage of the lease has been reached at which a reliable estimate of costs can be made, a provision is built up over the remaining length of the lease.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Dividends and distributions relating to equity instruments are debited direct to equity.

Group profit and loss account

	Note	2009 £'000	2008 £'000
Group turnover	1	141,292	160,238
Cost of sales		(107,920)	(128,238)
Gross profit		33,372	32,000
Operating expenses	2	(15,257)	(15,063)
Selling and administrative expenses	2	(11,575)	(11,244)
Depreciation and amortisation	2	(3,902)	(5,918)
		(30,734)	(32,225)
Operating profit/(loss)	3	2,638	(225)
Interest receivable		6	62
Interest payable and similar charges	6	(351)	(931)
Profit/(loss) on ordinary activities before taxation		2,293	(1,094)
Tax on profit/(loss) on ordinary activities	7	1,275	(8)
Profit/(loss) for the financial year	22	3,568	(1,102)

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own profit and loss account.

Group balance sheet

	Note	2009 £'000	2008 £'000
Fixed assets			
Intangible assets	9	7,270	7,803
Tangible assets	10	21,093	14,900
		<u>28,363</u>	<u>22,703</u>
Current assets			
Stocks	12	56	72
Debtors	13	21,898	24,303
Cash at bank and in hand		8,980	9,296
		<u>30,934</u>	<u>33,671</u>
Creditors: amounts falling due within one year	15	(35,231)	(43,173)
Net current liabilities		(4,297)	(9,502)
Total assets less current liabilities		24,066	13,201
Creditors: amounts falling due after more than one year	16	(6,721)	–
		<u>17,345</u>	<u>13,201</u>
Provisions for liabilities	17	(229)	–
		<u>17,116</u>	<u>13,201</u>
Capital and reserves			
Called-up equity share capital	20	225	225
Share premium account	22	26,397	26,397
Share option reserve	22	730	377
Foreign exchange reserve	22	7	13
Profit and loss account	22	(10,243)	(13,811)
Shareholders' funds	23	17,116	13,201

These consolidated financial statements were approved by the directors and authorised for issue on 10 March 2010 and are signed on their behalf by:

R M Falconer
 Director
 Company number: 4287779

G Sreeves
 Director

Company balance sheet

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	10	20,862	14,521
Investments	11	10,767	10,767
		<u>31,629</u>	<u>25,288</u>
Current assets			
Debtors	13	1,264	1,824
Cash at bank and in hand		915	–
		<u>2,179</u>	<u>1,824</u>
Creditors: amounts falling due within one year	15	<u>(23,094)</u>	<u>(23,489)</u>
Net current liabilities		<u>(20,915)</u>	<u>(21,665)</u>
Total assets less current liabilities		10,714	3,623
Creditors: amounts falling due after more than one year	16	<u>(6,721)</u>	<u>–</u>
		<u>3,993</u>	<u>3,623</u>
Capital and reserves			
Called-up equity share capital	20	225	225
Share premium account	22	26,397	26,397
Profit and loss account	22	(22,629)	(22,999)
Shareholders' funds		<u>3,993</u>	<u>3,623</u>

These consolidated financial statements were approved by the directors and authorised for issue on 10 March 2010 and are signed on their behalf by:

R M Falconer
 Director
 Company number: 4287779

G Sreeves
 Director

Group cash flow statement

	Note	2009 £'000	2008 £'000
Net cash inflow from operating activities	24	7,318	7,565
Returns on investments and servicing of finance	24	(345)	(869)
Taxation	24	(7)	(11)
Capital expenditure and financial investment	24	(2,846)	(2,630)
Cash inflow before financing		<u>4,120</u>	<u>4,055</u>
Financing	24	(4,436)	(3,847)
(Decrease)/increase in cash	24	<u>(316)</u>	<u>208</u>

Notes to the consolidated financial statements

1 Turnover

The turnover and loss before tax are attributable to the one principal activity of the Group. An analysis of turnover is given below:

	2009	2008
	£'000	£'000
United Kingdom	<u>141,292</u>	<u>160,238</u>

2 Other operating charges

	2009	2008
	£'000	£'000
Operating expenses	15,257	15,063
Selling and administrative expenses	11,575	11,244
Depreciation and amortisation	3,902	5,918
	<u>30,734</u>	<u>32,225</u>

3 Operating profit/(loss)

Operating profit/(loss) is stated after charging / (crediting):

	2009	2008
	£'000	£'000
Amortisation:		
Goodwill	533	1,187
Depreciation:		
Tangible fixed assets, owned	3,369	4,344
Tangible fixed assets held under finance leases and hire purchase contracts	–	387
Profit on the sale of fixed assets	–	(33)
Equity-settled share-based payments	353	111
Fees payable to the company's auditor for the audit of the company accounts	22	22
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiaries	40	40
Operating lease costs:		
Land and buildings	1,038	1,123
Plant and equipment	14	121

4 Particulars of employees and directors

The average number of staff employed by the group during the financial year amounted to:

	2009	2008
	No	No
Operational	101	101
Selling, administration and distribution	162	151
	<u>263</u>	<u>252</u>

The aggregate payroll costs of the above were:

	2009	2008
	£'000	£'000
Wages and salaries	10,755	10,317
Social security costs	1,083	1,147
Other pension costs	457	303
	<u>12,295</u>	<u>11,767</u>

5 Directors

Remuneration in respect of directors was as follows:

	2009	2008
	£'000	£'000
Emoluments receivable	363	323
Value of company pension contributions to money purchase schemes	58	89
	<u>421</u>	<u>412</u>

Emoluments of highest paid director:

	2009	2008
	£'000	£'000
Total emoluments (excluding pension contributions)	210	175
Value of company pension contributions to money purchase schemes	15	51
	<u>225</u>	<u>226</u>

The number of directors who accrued benefits under company pension schemes was as follows:

	2009	2008
	No	No
Money purchase schemes	<u>2</u>	<u>2</u>

6 Interest payable and similar charges

	2009	2008
	£'000	£'000
Finance charges in respect of finance leases	8	147
Interest payable on shareholder loans	206	313
Other interest payable	137	471
	<u>351</u>	<u>931</u>

7 Taxation on ordinary activities

(a) Taxation	2009	2008
	£'000	£'000
Current tax:		
UK Corporation tax based on the results for the year at 28 % (2008: 28.5%)	–	–
Taxation payable in respect of foreign subsidiary	(7)	(8)
Total current tax	(7)	(8)
Deferred tax:		
Origination and reversal of timing differences (note 14)	1,282	–
Tax on profit/(loss) on ordinary activities	<u>1,275</u>	<u>(8)</u>

The deferred tax asset has arisen due to short term timing differences and capital allowances which lag behind the depreciation charged in the accounts. Given the profitability of the group, these differences are expected to reverse in the near term thereby reducing future tax charges and hence the asset has been recognised.

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2008: 28.5%).

	2009	2008
	£'000	£'000
Profit/(loss) on ordinary activities before taxation	<u>2,293</u>	<u>(1,094)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK	642	(312)
Expenses not deductible for tax purposes	284	342
Income not chargeable for tax purposes	–	(165)
Depreciation for the period in excess of capital allowances	(963)	26
Other timing differences	23	(46)
Overseas taxation	7	8
Goodwill amortisation	14	155
Total current tax	<u>7</u>	<u>8</u>

8 Profit attributable to members of the parent company

The parent company's profit for the year was £370,000 (2008: £6,883,000).

9 Intangible fixed assets

The group

	Goodwill on consolidation £'000	Purchased goodwill £'000	Total £'000
Cost			
At 1 January 2009 and 31 December 2009	<u>11,294</u>	<u>1,618</u>	<u>12,912</u>
Amortisation			
At 1 January 2009	3,491	1,618	5,109
Charge for the year	<u>533</u>	<u>–</u>	<u>533</u>
At 31 December 2009	<u>4,024</u>	<u>1,618</u>	<u>5,642</u>
Net book value			
At 31 December 2009	<u>7,270</u>	<u>–</u>	<u>7,270</u>
At 31 December 2008	<u>7,803</u>	<u>–</u>	<u>7,803</u>

The goodwill on consolidation relates to the acquisition of Uni World Communications Limited, Go Worldwide Communications Limited, Blue Spot Technologies Limited and Peach Amber Kft and represents the excess of the consideration over the fair value of the assets acquired.

The purchased goodwill represents the cost of acquiring the customer bases of three smaller re-sellers.

10 Tangible fixed assets

Group	Network assets £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2009	26,252	5,532	699	38	32,521
Additions	7,880	1,588	90	4	9,562
Disposals	(624)	(621)	(3)	–	(1,248)
At 31 December 2009	<u>33,508</u>	<u>6,499</u>	<u>786</u>	<u>42</u>	<u>40,835</u>
Depreciation					
At 1 January 2009	13,660	3,526	402	33	17,621
Charge for the year	2,207	1,037	123	2	3,369
Eliminated on disposals	(624)	(621)	(3)	–	(1,248)
At 31 December 2009	<u>15,243</u>	<u>3,942</u>	<u>522</u>	<u>35</u>	<u>19,742</u>
Net book value					
At 31 December 2009	<u>18,265</u>	<u>2,557</u>	<u>264</u>	<u>7</u>	<u>21,093</u>
At 31 December 2008	<u>12,592</u>	<u>2,006</u>	<u>297</u>	<u>5</u>	<u>14,900</u>

In 2006, the group entered into a sale and leaseback arrangement in respect of certain network assets. Included within the net book value of £21.1m is £nil (2008: £2.0m) relating to assets held under this finance lease agreement. The depreciation charged to the financial statements in the year in respect of such assets amounted to £nil (2008: £0.4m).

10 Tangible fixed assets (continued)

Company	Network assets £'000	Computer equipment £'000	Fixtures & fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2009	26,252	3,859	411	38	30,560
Additions	7,880	1,531	83	4	9,498
Disposals	(624)	—	—	—	(624)
At 31 December 2009	<u>33,508</u>	<u>5,390</u>	<u>494</u>	<u>42</u>	<u>39,434</u>
Depreciation					
At 1 January 2009	13,660	2,123	223	33	16,039
Charge for the year	2,207	871	77	2	3,157
Disposals	(624)	—	—	—	(624)
At 31 December 2009	<u>15,243</u>	<u>2,994</u>	<u>300</u>	<u>35</u>	<u>18,572</u>
Net book value					
At 31 December 2009	<u>18,265</u>	<u>2,396</u>	<u>194</u>	<u>7</u>	<u>20,862</u>
At 31 December 2008	<u>12,592</u>	<u>1,736</u>	<u>188</u>	<u>5</u>	<u>14,521</u>

In 2006, the company entered into a sale and leaseback arrangement in respect of certain network assets. Included within the net book value of £21.1m is £nil (2008: £2.0m) relating to assets held under this finance lease agreement. The depreciation charged to the financial statements in the year in respect of such assets amounted to £nil (2008: £0.4m).

11 Investments

The company	Shares in group undertakings £'000
Cost	
At 1 January 2009 and 31 December 2009	<u>10,767</u>
Net book value	
At 31 December 2009	<u>10,767</u>
At 31 December 2008	<u>10,767</u>

11 Investments (continued)

At 31 December 2009 the company held share capital of the following subsidiaries, all of which are registered in England and Wales with the exception of Peach Amber Kft which is incorporated in Hungary:

	Class of share capital	Proportion held by the parent company	Nature of business
Gamma Telecom Limited	Ordinary	100%	Telephony services
Gamma Metronet Limited	Ordinary	100%	Supply and installation of telecoms access
Uni World Communications Limited	Ordinary	100%	Retail telephony services
Peach Amber Kft	Ordinary	100%	Software services

At 31 December 2009, Uni World Communications Limited held share capital of the following subsidiaries, both of which are registered in England and Wales:

	Class of share capital	Proportion held by the parent company	Nature of business
Go Worldwide Communications Limited	Ordinary	100%	Dormant
Blue Spot Technologies Limited	Ordinary	100%	Dormant

12 Stocks

	2009	The group	2009	The company
	£'000	2008	£'000	2008
		£'000		£'000
Consumables	<u>56</u>	<u>72</u>	<u>–</u>	<u>–</u>

13 Debtors

	The group		The company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Trade debtors	10,385	12,929	–	–
Amounts owed by group undertakings	–	–	–	1,689
Other debtors	1,016	383	745	135
Prepayments and accrued income	9,215	10,991	4	–
Deferred tax (note 14)	1,282	–	515	–
	<u>21,898</u>	<u>24,303</u>	<u>1,264</u>	<u>1,824</u>

Included within the deferred tax asset for the group is an amount of £141k which is expected to be realised after more than one year (2008: £ nil). Included within the deferred tax asset for the company is an amount of £96k which is expected to be realised after more than one year (2008: £nil).

14 Deferred taxation

The group's movement in the deferred taxation provision during the year was:

	The group		The company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Asset brought forward	–	–	–	–
Profit and loss account movement arising during the period (note 7)	1,282	–	515	–
Asset carried forward (note 13)	<u>1,282</u>	<u>–</u>	<u>515</u>	<u>–</u>

The deferred taxation asset consists of the tax effect of timing differences in respect of:

	The group		The company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Excess of taxation allowances over depreciation of fixed assets	601	–	515	–
Other timing differences	681	–	–	–
	<u>1,282</u>	<u>–</u>	<u>515</u>	<u>–</u>

The group has not recognised an additional deferred tax asset totalling £490k (2008: £2,718k); the company has not recognised an additional deferred tax asset totalling £210k (2008: £1,895k).

15 Creditors: amounts falling due within one year

	The group		The company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Bank overdraft	–	3	–	3
Trade creditors	8,117	10,466	5,364	8,879
Taxation and social security	335	539	–	–
Invoice discounting facility	10,517	11,651	–	–
Other creditors	449	977	–	561
Accruals and deferred income	15,803	16,224	8,488	10,691
Amounts owed to group undertakings	–	–	9,232	42
Shareholders' loan	–	3,000	–	3,000
Amounts due under finance leases	10	313	10	313
	<u>35,231</u>	<u>43,173</u>	<u>23,094</u>	<u>23,489</u>

The invoice discounting facility is secured over the book debts of the group excluding Uni World Communications Limited and is repayable in full with a three month notice period by either party.

Amounts due under finance leases are secured on the assets to which they relate.

16 Creditors: amounts falling due after more than one year

	The group		The company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
Amounts due under finance leases	4	–	4	–
Other creditors	6,717	–	6,717	–
	<u>6,721</u>	<u>–</u>	<u>6,721</u>	<u>–</u>

17 Provisions for liabilities and charges

	The group		The company	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
At 1 January 2009	–	–	–	–
Profit and loss charge in the period	229	–	–	–
At 31 December 2009	<u>229</u>	<u>–</u>	<u>–</u>	<u>–</u>

Provisions are created for dilapidations in respect of property leases where the building (which is the subject of the lease) has to be returned to the landlord in a defined condition. The total cost of rectification is estimated and the provision is built up over the remaining length of the lease. Once the stage of the lease has been reached at which a reliable estimate of costs can be made, a provision is built up over the remaining length of the lease.

18 Borrowings

Borrowings are repayable as follows:

	The group and the company	
	2009 £'000	2008 £'000
Within one year	10	3,313
After one and within two years	4	–
After two and within five years	–	–
	<u>14</u>	<u>3,313</u>

19 Commitments under operating leases

At 31 December 2009 the group had annual commitments under non-cancellable operating leases as set out below.

	2009		2008	
	Land and buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
In one year or less	174	27	87	59
Between one and five years	265	18	590	18
In five years or more	415	–	171	–
	<u>854</u>	<u>45</u>	<u>848</u>	<u>77</u>

20 Share capital

Authorised share capital:

	2009 £'000	2008 £'000
50,000,000 Ordinary shares of 1p each	<u>500</u>	<u>500</u>

Allotted, called up and fully paid:

	2009		2008	
	No	£'000	No	£'000
Ordinary shares of 1p each	<u>22,540,910</u>	<u>225</u>	<u>22,540,910</u>	<u>225</u>

20 Share capital (continued)

Total share options in issue in the year were as follows:

The group has granted the following options over Ordinary shares of £0.01 as follows:

Date of grant	Start of year/ Granted in year	Modified/ lapsed	End of year	Exercise Price	Notes
17 December 2002	25,000	–	25,000	£3.25	(a)
29 August 2003	5,500	(27)	5,473	£2.50	(b)
9 December 2003	50,000	(50,000)	–	£2.50	(c)
23 December 2004	25,000	–	25,000	£3.00	(a)
23 December 2004	11,800	(11,800)	–	£3.00	(d)
5 May 2005	175,000	(175,000)	–	£2.00	(d)
6 September 2005	50,000	(50,000)	–	£2.50	(a)
6 September 2005	18,000	(6,000)	12,000	£2.50	(b)
27 July 2006	1,000,000	(1,000,000)	–	£2.00	(b)
31 May 2007	263,000	* (250,000)	13,000	£2.00	(b)
5 December 2007	100,000	(100,000)	–	£2.00	(b)
5 March 2008	163,200	(163,200)	–	£2.00	(b)
2 October 2008	278,000	(200,000)	78,000	£2.00	(b)
8 July 2009	1,996,027	–	1,996,027	£1.00	(b)
2 September 2009	187,500	–	187,500	£1.00	(b)

All options lapse ten years after the date on which they were issued.

Notes:

- (a) Vesting period is equally over three years
- (b) Vesting period starts on date of issue
- (c) Vesting period is equally over three years from 30 April 2004
- (d) Vesting period is equally over three years from 31 December 2005

* 10,000 of the share options granted on 31 May 2007 lapsed during the course of the year ended 31 December 2009.

21 Share-based payments

Share options subject to equity-settled share-based payments are set out within note 20.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Application of the fair value measurement results in a charge to operating expenses for the year ended 31 December 2009 of £353k (2008 £111k) within the subsidiary company, Gamma Telecom Limited. The charge has been made to the profit and loss account of the subsidiary as the employees' services are provided in that company.

Fair value is measured using the binomial pricing model and includes the information set out in the table below. The expected life used in the model assumes that vesting conditions will be met and all options will be exercised at the earliest opportunity.

	2009	2008
Share price at grant date (pence)	106	150
Exercise price (pence)	100	200
Expected volatility	30-32%	26%
Risk free rate	2.23-2.60%	4.05 - 4.09%
Expected dividend yield	0.0%	0.0 %

22 Reserves

Group	Share premium account £'000	Share option reserve £'000	Foreign exchange reserve £'000	Profit and loss account £'000
At 1 January 2009	26,397	377	13	(13,811)
Profit for the year	–	–	–	3,568
Recognition of equity-settled share-based payments in the year	–	353	–	–
Loss on retranslation of foreign subsidiary	–	–	(6)	–
At 31 December 2009	<u>26,397</u>	<u>730</u>	<u>7</u>	<u>(10,243)</u>
Company			Share premium account £'000	Profit and loss account £'000
At 1 January 2009			26,397	(22,999)
Profit for the year			–	370
At 31 December 2009			<u>26,397</u>	<u>(22,629)</u>

23 Reconciliation of shareholders' funds and movements on reserves

The group	2009	2008
	£'000	£'000
Profit/(loss) for the financial year	3,568	(1,102)
Foreign exchange movement	(6)	(8)
Share-based payment reserve	353	111
Net reduction to shareholders' equity funds	<u>3,915</u>	<u>(999)</u>
Opening shareholders' funds	<u>13,201</u>	<u>14,200</u>
Closing shareholders' funds	<u><u>17,116</u></u>	<u><u>13,201</u></u>

24 Notes to the statement of cash flows

Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	2009	2008
	£'000	£'000
Operating profit/(loss)	2,638	(225)
Depreciation and amortisation	3,902	5,918
Profit on sale of fixed assets	–	(33)
Decrease in stocks	16	8
Decrease in debtors	3,687	2,863
Decrease in creditors	(3,501)	(1,069)
Increase in provisions	229	–
Equity-settled share based payments in the year	353	111
Gain on retranslation of foreign subsidiary	(6)	(8)
Net cash inflow from operating activities	<u><u>7,318</u></u>	<u><u>7,565</u></u>

Returns on investments and servicing of finance

	2009	2008
	£'000	£'000
Interest received	6	62
Interest paid	(351)	(931)
Net cash outflow from returns on investments and servicing of finance	<u><u>(345)</u></u>	<u><u>(869)</u></u>

Taxation

	2009	2008
	£'000	£'000
Taxation	<u><u>(7)</u></u>	<u><u>(11)</u></u>

24 Notes to the statement of cash flows (continued)

Capital expenditure and financial investment

	2009 £'000	2008 £'000
Payments to acquire tangible fixed assets	(2,846)	(2,673)
Receipts from sale of fixed assets	–	43
Net cash outflow for capital expenditure and financial investment	<u>(2,846)</u>	<u>(2,630)</u>

Financing

	2009 £'000	2008 £'000
Overdraft repaid in year	(3)	–
Invoice discounting facility (repaid)/advanced in the year	(1,134)	244
Loans repaid in the year	(3,000)	(3,001)
Receipts from new finance leases	–	27
Repayment of amounts due under finance leases	(299)	(1,117)
Net cash outflow from financing	<u>(4,436)</u>	<u>(3,847)</u>

Reconciliation of net cash flow to movement in net debt

	2009 £'000	2008 £'000
(Decrease)/increase in cash in the year	(316)	208
Cash outflow from decrease in debt	4,436	3,847
Change in net funds from cash flows	<u>4,120</u>	<u>4,055</u>
Net debt at 1 January	<u>(5,671)</u>	<u>(9,726)</u>
Net debt at 31 December	<u>(1,551)</u>	<u>(5,671)</u>

24 Notes to the statement of cash flows (continued)

Analysis of changes in net debt

	At 1 Jan 2009 £'000	Net Cash flows £'000	At 31 Dec 2009 £'000
Net cash:			
Cash in hand and at bank	9,296	(316)	8,980
Debt due within one year:			
Bank overdraft	(3)	3	–
Invoice discounting facility	(11,651)	1,134	(10,517)
Finance leases	(313)	303	(10)
Shareholders' loan	(3,000)	3,000	–
	<u>(14,967)</u>	<u>4,440</u>	<u>(10,527)</u>
Debt due after one year:			
Finance leases	–	(4)	(4)
	<u>–</u>	<u>(4)</u>	<u>(4)</u>
Net debt	<u>(5,671)</u>	<u>4,120</u>	<u>(1,551)</u>

25 Contingent liabilities

Neither the group nor the company had any contingent liabilities at 31 December 2009 or at 31 December 2008.

26 Capital commitments

Neither the group nor the company had any capital commitments at 31 December 2009 or at 31 December 2008.

27 Pension costs

The group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in a fund independent from those of the group. The pension costs charged in the year amounted to £457k (2008: £303k).