



Grant Thornton

Consolidated Financial
Statements
Gamma Telecom Holdings
Limited

For the Year Ended 31 December 2008

Company information

| | |
|-----------------------------|---|
| Company registration number | 4287779 |
| Registered office | 5 Fleet Place London EC4M 7RD |
| Directors | T B K Khoo K E Kuok M Sofaer M J C Stone C R H Stone KC Tse R M Falconer G Sreeves C S McGregor M W deVilliers 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

2008 has been another successful year for the Gamma Group. Consolidated turnover decreased very slightly from £161.0m to £160.2m. The revenue in 2008 suffers from the full year impact of the loss of the AOL contract (worth c£12m pa) in May 2007 following the acquisition of this business activity by the Carphone Warehouse Group. Correcting for the AOL contract, underlying revenue growth was 3.2%. Notwithstanding, margin increased significantly from £29.0m (18.0%) to £32.0m (20.0%). The strategy of broadening the product range whilst tightly controlling costs has improved both margins and cashflow.

As planned, during 2008 the Group continued to invest significant resources into building and selling its broader product portfolio, primarily targeted at the small to medium business sector. As a result EBITDA for the year was £5.7m (2007: £2.7m) and loss before tax of £1.1m (2007: £4.5m loss).

Net cash inflow from operating activities was £7.6m in 2008, an increase of £3.3m from last year (2007: £4.3m). After interest payments, capital expenditure and acquisitions the cash inflow before financing was £4.1m (2007: Outflow of £1.4m). This is a significant improvement over previous years and demonstrates the increased breadth and maturity of the business.

The Gamma Telecom strategy has consistently remained focussed on selling through the channel and that depth of understanding, coupled with a strong service ethos, and good product range has helped build the number of channel partners to over 500 during the year. Particularly encouraging has been the increasing number of Partners selling multiple services and next generation IP telephony products on longer term contracts. The growth of the market for new IP based product revenue has been slower than expected, partly as a result in delays to upgrades to BT's infrastructure under the 21CN programme. Nevertheless, the transition to this newer technology is inevitable and Gamma is in a market leading position.

A major advantage of Gamma's early move to a next generation network has been a major reduction in power consumption. This has enabled the company to fully offset its remaining carbon emissions. Each year, Gamma's carbon footprint is independently assessed and Gamma offsets this carbon 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. As a result Gamma has become the first large carrier in the UK to become carbon neutral, enabling the company to offer "Green Minutes" to its customers. Increasingly this is a key factor in buying decisions, particularly in the public sector.

Despite the recession facing businesses in 2009, the management remain optimistic. Volumes for commodity telecommunications services are relatively resistant to a downturn and Gamma's channel partners are well placed to help their SME customers to use technology to manage their business more effectively. Nevertheless the credit risk has clearly increased and the take up of new technology and services will inevitably be slower than expected.

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 2008.

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

| | 2008 | 2007 | Change |
|---|----------|---------|---------|
| Traffic (minutes billions) | 10.2 | 8.7 | +17.2% |
| Turnover | £160.2m | £161.0m | -0.5% |
| Gross profit | £ 32.0m | £29.0m | +10.3% |
| Gross profit percentage | 20.0% | 18.0% | +11.1% |
| Earnings before interest, taxation, depreciation and amortisation | £ 5.7m | £2.7m | +111.1% |
| Loss before taxation | £ (1.1)m | £(4.5)m | N/A |
| Capital expenditure | £ 2.7m | £4.4m | -38.6% |
| Average headcount | 252 | 224 | +12.5% |

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 maintained its turnover at £160.2m (2007: £161.0m) but has increased the margin from £29.0m in 2007 to £32.0m in 2008 by focussing on higher margin customers and higher margin products.

The directors are not recommending the payment of a dividend.

Turnover

Turnover remained static at £160.2m in 2008 (2007: £161.0m) which was due primarily to focussing on higher margin customers and not winning revenue at lower margins. The directors consider that this is a good performance and reflects Gamma's strong position in a sector where overall voice revenue is falling.

Gross profit

Gross profit increased by £3.0m to £32.0m in 2008 (2007: £29.0m), representing a gross profit percentage of 20.0% (2007: 18.0%). The directors attribute this increase to the focus on higher margin customers and the proportion of revenue coming from IP products.

Operating costs

Gamma's operating costs excluding depreciation and amortisation were broadly the same in 2008 as the previous year at £26.3m (2007: £26.3m).

Capital expenditure

The total investment in fixed assets in 2008 was £2.7m (2007: £4.4m) giving Gamma the ability to deliver service on a fully IP based platform and to handle in excess of 12 billion minutes of traffic per annum.

Cash flow

Net cash inflow from operating activities was £7.6m in 2008, an increase of £3.3m from last year (2007: £4.3m). After interest payments, taxation and capital expenditure the cash inflow before financing was £4.1m (2007: Outflow of £1.4m). This is a significant improvement from previous years.

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 2007 the Group consumed 4,300,100 kwhr (2007: 4,251,000 kwhr). This is a reduction of 14% per carried minute year on year. Continued investment in this technology enables us to continue to reduce the mean power consumption per minute carried.
- a first in the UK telecoms market, as from 1st 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 homeworking.
- 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. The majority 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. Long term financial investments are managed to generate lasting returns.

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 has reviewed and tightened its strict credit vetting policy in light of recent market developments and bases its credit terms on track record payment history 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 provides 90% of eligible trade debtors. The group recognises the current uncertainty in the capital markets but has enjoyed good relationships with its funders for several years and expects these to continue.

Directors

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

T B K Khoo
K E Kuok
M Sofaer
M J C Stone
C R H Stone
T J Whyte (resigned 28 October 2008)
P W Chow (resigned 2 January 2008)
R M Falconer
G Sreeves
C S McGregor
M W de Villiers
S J Burton
KC Tse (appointed 2 January 2008)

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 group and of the profit or loss of the group 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 group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and of the group 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.

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
2 June 2009



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

We have audited the group and parent company financial statements (the "financial statements") of Gamma Telecom Holdings Limited for the year ended 31 December 2008 which comprise the principal accounting policies, the group profit and loss account, the group and company balance sheets, the group cash flow statement and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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 auditor

The directors' responsibilities for preparing the Report of the directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Chairman's statement and Report of the directors and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement and Report of the directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the directors is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
OXFORD
2 June 2009

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.

The principal accounting policies remain unchanged from the prior year and are set out below. The Group is cash generative and enjoys strong working relationships with its funders; therefore, despite the current uncertainties in the capital markets, the financial statements have been prepared on a going concern basis.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings drawn up to 31 December 2008. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

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.

Intangible assets and amortisation

Intangible assets are included at cost and amortised over their useful economic lives as follows:

| | | |
|------------------|---|--|
| Intangible asset | - | 3 years from the date of the first acquisition |
|------------------|---|--|

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 |
| Office equipment | - | 25% straight line |
| Fixtures & fittings | - | 20% 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 19.

Group profit and loss account

| | Note | 2008 £'000 | 2007 £'000 |
|--|------|------------------|---------------|
| Group turnover | 1 | 160,238 | 161,007 |
| Cost of sales | | (128,238) | (131,958) |
| Gross profit | | 32,000 | 29,049 |
| Operating expenses | 2 | (15,063) | (15,079) |
| Selling and administrative expenses | 2 | (11,244) | (11,230) |
| Depreciation and amortisation | 2 | (5,918) | (5,941) |
| | | (32,225) | (32,250) |
| Operating loss | 3 | (225) | (3,201) |
| Interest receivable | | 62 | 106 |
| Interest payable and similar charges | 6 | (931) | (1,417) |
| Loss on ordinary activities before taxation | | (1,094) | (4,512) |
| Tax on loss on ordinary activities | 7 | (8) | (6) |
| Loss for the financial year | 20 | (1,102) | (4,518) |

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 230 of the Companies Act 1985 not to publish its own profit and loss account.

Group balance sheet

| | Note | 2008 £'000 | 2007 £'000 |
|--|------|-----------------|-----------------|
| Fixed assets | | | |
| Intangible assets - goodwill | 9 | 7,803 | 8,990 |
| Tangible assets | 10 | 14,900 | 16,968 |
| | | <u>22,703</u> | <u>25,958</u> |
| Current assets | | | |
| Stocks | 12 | 72 | 80 |
| Debtors | 13 | 24,303 | 27,166 |
| Cash at bank and in hand | | 9,296 | 9,085 |
| | | <u>33,671</u> | <u>36,331</u> |
| Creditors: amounts falling due within one year | 14 | (43,173) | (44,797) |
| Net current liabilities | | (9,502) | (8,466) |
| Total assets less current liabilities | | 13,201 | 17,492 |
| Creditors: amounts falling due after more than one year | 15 | – | (3,292) |
| | | <u>13,201</u> | <u>14,200</u> |
| Capital and reserves | | | |
| Called-up equity share capital | 18 | 225 | 225 |
| Share premium account | 20 | 26,397 | 26,397 |
| Share option reserve | 20 | 377 | 266 |
| Foreign exchange reserve | 20 | 13 | 21 |
| Profit and loss account | 20 | (13,811) | (12,709) |
| Shareholders' funds | 21 | 13,201 | 14,200 |

These consolidated financial statements were approved by the directors and authorised for issue on 2 June 2009 and are signed on their behalf by:

R M Falconer
 Director

G Sreeves
 Director

Company balance sheet

| | Note | 2008 £'000 | 2007 £'000 |
|--|------|-----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 10 | 14,521 | 16,342 |
| Investments | 11 | 10,767 | 10,767 |
| | | <u>25,288</u> | <u>27,109</u> |
| Current assets | | | |
| Debtors | 13 | 1,824 | 665 |
| Cash at bank and in hand | | – | 7,561 |
| | | <u>1,824</u> | <u>8,226</u> |
| Creditors: amounts falling due within one year | 14 | <u>(23,489)</u> | <u>(35,303)</u> |
| Net current liabilities | | <u>(21,665)</u> | <u>(27,077)</u> |
| Total assets less current liabilities | | 3,623 | 32 |
| Creditors: amounts falling due after more than one year | 15 | – | (3,292) |
| | | <u>3,623</u> | <u>(3,260)</u> |
| Capital and reserves | | | |
| Called-up equity share capital | 18 | 225 | 225 |
| Share premium account | 20 | 26,397 | 26,397 |
| Profit and loss account | 20 | (22,999) | (29,882) |
| Shareholders' funds | | <u>3,623</u> | <u>(3,260)</u> |

These consolidated financial statements were approved by the directors and authorised for issue on 2 June 2009 and are signed on their behalf by:

R M Falconer
 Director

G Sreeves
 Director

Group cash flow statement

| | Note | 2008 £'000 | 2007 £'000 |
|--|-------------|-----------------------|-----------------------|
| Net cash inflow from operating activities | 22 | 7,565 | 4,336 |
| Returns on investments and servicing of finance | 22 | (869) | (1,311) |
| Taxation | 22 | (11) | (20) |
| Capital expenditure and financial investment | 22 | (2,630) | (4,427) |
| Cash outflow before financing | | 4,055 | (1,422) |
| Financing | 22 | (3,847) | (2,321) |
| Increase/ (decrease) in cash | 22 | 208 | (3,743) |

The accompanying accounting policies and notes form part of these Consolidated financial statements.

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:

| | 2008 £ '000 | 2007 £'000 |
|----------------|------------------------------|---------------|
| United Kingdom | 160,238 | 161,007 |

2 Other operating charges

| | 2008 £ '000 | 2007 £'000 |
|-------------------------------------|------------------------------|---------------|
| Operating expenses | 15,063 | 15,079 |
| Selling and administrative expenses | 11,244 | 11,230 |
| Depreciation and amortisation | 5,918 | 5,941 |
| | 32,225 | 32,250 |

3 Operating loss

Operating loss is stated after charging / (crediting):

| | 2008 £ '000 | 2007 £'000 |
|---|------------------------------|---------------|
| Amortisation: | | |
| Goodwill | 1,187 | 1,384 |
| Depreciation: | | |
| Tangible fixed assets, owned | 4,344 | 4,168 |
| Tangible fixed assets held under finance leases and hire purchase contracts | 387 | 389 |
| Profit on the sale of fixed assets | (33) | – |
| Equity-settled share-based payments | 111 | 70 |
| Fees payable to the company's auditor for the audit of the company accounts | 22 | 25 |
| Fees payable to the company's auditor for other services: | | |
| The audit of the company's subsidiaries | 40 | 36 |
| Operating lease costs: | | |
| Land and buildings | 1,123 | 978 |
| Plant and equipment | 121 | 51 |

4 Particulars of employees and directors

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

| | 2008 | 2007 |
|--|-------------------|------------|
| | No | No |
| Operational | 101 | 77 |
| Selling, administration and distribution | 151 | 147 |
| | <u>252</u> | <u>224</u> |

The aggregate payroll costs of the above were:

| | 2008 | 2007 |
|-----------------------|----------------------|---------------|
| | £ '000 | £'000 |
| Wages and salaries | 10,317 | 8,889 |
| Social security costs | 1,147 | 975 |
| Other pension costs | 303 | 228 |
| | <u>11,767</u> | <u>10,092</u> |

5 Directors

Remuneration in respect of directors was as follows:

| | 2008 | 2007 |
|--|-------------------|------------|
| | £'000 | £'000 |
| Emoluments receivable | 323 | 374 |
| Value of company pension contributions to money purchase schemes | 89 | 15 |
| | <u>412</u> | <u>389</u> |

Emoluments of highest paid director:

| | 2008 | 2007 |
|--|-------------------|------------|
| | £'000 | £'000 |
| Total emoluments (excluding pension contributions) | 175 | 193 |
| Value of company pension contributions to money purchase schemes | 51 | 8 |
| | <u>226</u> | <u>201</u> |

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

| | 2008 | 2007 |
|------------------------|-----------------|----------|
| | No | No |
| Money purchase schemes | <u>2</u> | <u>2</u> |

6 Interest payable and similar charges

| | 2008 £ '000 | 2007 £'000 |
|--|----------------|---------------|
| Finance charges in respect of finance leases | 147 | 145 |
| Interest payable on shareholder loans | 313 | 375 |
| Other interest payable | 471 | 897 |
| | <u>931</u> | <u>1,417</u> |

7 Taxation on ordinary activities

| (a) Taxation | 2008 £ '000 | 2007 £'000 |
|---|----------------|---------------|
| Current tax: | | |
| UK Corporation tax based on the results for the year at 28.5% (2007: 30%) | – | – |
| Under provision in the prior year | – | 3 |
| Taxation payable in respect of foreign subsidiary | 8 | 3 |
| Total current tax | <u>8</u> | <u>6</u> |
| Deferred tax: | | |
| Origination and reversal of timing differences | – | – |
| Tax on loss on ordinary activities | <u>8</u> | <u>6</u> |

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28.5% (2007: 30%).

| | 2008 £ '000 | 2007 £'000 |
|--|----------------|----------------|
| Loss on ordinary activities before taxation | <u>(1,094)</u> | <u>(4,512)</u> |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK | (312) | (1,354) |
| Expenses not deductible for tax purposes | 342 | 149 |
| Income not chargeable for tax purposes | (165) | – |
| Depreciation for the period in excess of capital allowances | 26 | 895 |
| Other timing differences | (46) | 508 |
| Overseas taxation | 8 | 3 |
| Utilisation of tax losses | – | (365) |
| Goodwill amortisation | 155 | 167 |
| Adjustment in respect of prior year | – | 3 |
| Total current tax | <u>8</u> | <u>6</u> |

8 Loss attributable to members of the parent company

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was £6,883,000 (2007: loss of £8,196,000).

9 Intangible fixed assets

The group

| | Goodwill on consolidation £'000 | Purchased goodwill £'000 | Total £'000 |
|--|--|---|------------------------|
| Cost | | | |
| At 1 January 2008 and 31 December 2008 | 11,294 | 1,618 | 12,912 |
| Amortisation | | | |
| At 1 January 2008 | 2,642 | 1,280 | 3,922 |
| Charge for the year | 849 | 338 | 1,187 |
| At 31 December 2008 | 3,491 | 1,618 | 5,109 |
| Net book value | | | |
| At 31 December 2008 | 7,803 | – | 7,803 |
| At 31 December 2007 | 8,652 | 338 | 8,990 |

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 | Office equipment £'000 | Motor vehicles £'000 | Total £'000 |
|-------------------------|----------------------------|--------------------------------|-----------------------------------|------------------------------|----------------------------|----------------------|
| Cost | | | | | | |
| At 1 January 2008 | 24,596 | 4,776 | 432 | 215 | 38 | 30,057 |
| Additions | 1,679 | 925 | 60 | 9 | – | 2,673 |
| Disposals | (23) | (169) | (17) | – | – | (209) |
| At 31 December 2008 | <u>26,252</u> | <u>5,532</u> | <u>475</u> | <u>224</u> | <u>38</u> | <u>32,521</u> |
| Depreciation | | | | | | |
| At 1 January 2008 | 9,966 | 2,806 | 185 | 107 | 25 | 13,089 |
| Charge for the year | 3,707 | 889 | 91 | 36 | 8 | 4,731 |
| Eliminated on disposals | (13) | (169) | (17) | – | – | (199) |
| At 31 December 2008 | <u>13,660</u> | <u>3,526</u> | <u>259</u> | <u>143</u> | <u>33</u> | <u>17,621</u> |
| Net book value | | | | | | |
| At 31 December 2008 | <u>12,592</u> | <u>2,006</u> | <u>216</u> | <u>81</u> | <u>5</u> | <u>14,900</u> |
| At 31 December 2007 | <u>14,630</u> | <u>1,970</u> | <u>247</u> | <u>108</u> | <u>13</u> | <u>16,968</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 £14,900,000 is £1,974,000 (2007: £2,361,000) 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 £387,000 (2007: £389,000).

10 Tangible fixed assets (continued)

| Company | Network assets £'000 | Computer equipment £'000 | Fixtures & fittings £'000 | Office equipment £'000 | Motor vehicles £'000 | Total £'000 |
|-------------------------|----------------------------|--------------------------------|---------------------------------|------------------------------|----------------------------|----------------------|
| Cost | | | | | | |
| At 1 January 2008 | 24,596 | 3,121 | 323 | 47 | 38 | 28,125 |
| Additions | 1,679 | 908 | 58 | - | - | 2,645 |
| Disposals | (24) | (169) | (17) | - | - | (210) |
| At 31 December 2008 | <u>26,251</u> | <u>3,860</u> | <u>364</u> | <u>47</u> | <u>38</u> | <u>30,560</u> |
| Depreciation | | | | | | |
| At 1 January 2008 | 9,966 | 1,623 | 129 | 40 | 25 | 11,783 |
| Charge for the year | 3,706 | 670 | 69 | 2 | 8 | 4,455 |
| Eliminated on disposals | (13) | (169) | (17) | - | - | (199) |
| At 31 December 2008 | <u>13,659</u> | <u>2,124</u> | <u>181</u> | <u>42</u> | <u>33</u> | <u>16,039</u> |
| Net book value | | | | | | |
| At 31 December 2008 | <u>12,592</u> | <u>1,736</u> | <u>183</u> | <u>5</u> | <u>5</u> | <u>14,521</u> |
| At 31 December 2007 | <u>14,630</u> | <u>1,498</u> | <u>194</u> | <u>7</u> | <u>13</u> | <u>16,342</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 £14,521,000 is £1,974,000 (2007: £2,361,000) 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 £387,000 (2007: £389,000).

11 Investments

| The company | Shares in group undertakings £ '000 |
|--|---|
| Cost | |
| At 1 January 2008 and 31 December 2008 | <u>10,767</u> |
| Net book value | |
| At 31 December 2008 | <u>10,767</u> |
| At 31 December 2007 | <u>10,767</u> |

11 Investments (continued)

At 31 December 2008 the company held share capital of the following subsidiaries, all of which are incorporated 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 2008, Uni World Communications Limited held share capital of the following subsidiaries, both of which are incorporated 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

| | 2008 | The group | The company |
|-------------|--------------|------------------|--------------------|
| | 2007 | 2008 | 2007 |
| | £'000 | £'000 | £'000 |
| Consumables | <u>72</u> | <u>80</u> | <u>-</u> |

13 Debtors

| | 2008 | The group | 2008 | The company |
|------------------------------------|---------------|------------------|---------------|--------------------|
| | £ '000 | 2007 | £ '000 | 2007 |
| | | £'000 | | £'000 |
| Trade debtors | 12,929 | 15,534 | – | – |
| Amounts owed by group undertakings | – | – | 1,689 | 557 |
| Other debtors | 383 | 387 | 135 | 108 |
| Prepayments and accrued income | 10,991 | 11,245 | – | – |
| | <u>24,303</u> | <u>27,166</u> | <u>1,824</u> | <u>665</u> |

14 Creditors: amounts falling due within one year

| | 2008 | The group | 2008 | The company |
|------------------------------------|---------------|------------------|---------------|--------------------|
| | £ '000 | 2007 | £ '000 | 2007 |
| | | £'000 | | £'000 |
| Overdraft | 3 | – | 3 | – |
| Trade creditors | 10,466 | 13,000 | 8,879 | 9,666 |
| Corporation tax | – | 3 | – | – |
| Taxation and social security | 539 | 344 | – | – |
| Invoice discounting facility | 11,651 | 11,407 | – | – |
| Other creditors | 977 | 1,053 | 561 | 613 |
| Accruals and deferred income | 16,224 | 14,878 | 10,691 | 10,198 |
| Amounts owed to group undertakings | – | – | 42 | 10,714 |
| Convertible shareholders' loan | – | 3,000 | – | 3,000 |
| Shareholders' loan | 3,000 | – | 3,000 | – |
| Amounts due under finance leases | 313 | 1,112 | 313 | 1,112 |
| | <u>43,173</u> | <u>44,797</u> | <u>23,489</u> | <u>35,303</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.

Interest on the shareholders' loan is charged at 7% per annum on the balance outstanding.

15 Creditors: amounts falling due after more than one year

| | The group | | The company | |
|----------------------------------|------------------|---------------------|--------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ '000 | £'000 | £ '000 | £'000 |
| Shareholders' loan | – | 3,001 | – | 3,001 |
| Amounts due under finance leases | – | 291 | – | 291 |
| | <u>–</u> | <u>3,292</u> | <u>–</u> | <u>3,292</u> |
| | <u><u>–</u></u> | <u><u>3,292</u></u> | <u><u>–</u></u> | <u><u>3,292</u></u> |

16 Borrowings

Borrowings are repayable as follows:

| | The group and the company | |
|---------------------------------|----------------------------------|---------------------|
| | 2008 | 2007 |
| | £'000 | £'000 |
| Within one year | 3,313 | 4,112 |
| After one and within two years | – | 3,292 |
| After two and within five years | – | – |
| | <u>3,313</u> | <u>7,404</u> |
| | <u><u>3,313</u></u> | <u><u>7,404</u></u> |

17 Commitments under operating leases

At 31 December 2008 the group had annual commitments under non-cancellable operating leases as set out below.

| | 2008 | | 2007 | |
|----------------------------|---------------------------|-------------------------|---------------------------|------------------|
| | Land and buildings | Other | Land and Buildings | Other |
| | £ '000 | £ '000 | £'000 | £'000 |
| In one year or less | 87 | 59 | 167 | – |
| Between one and five years | 590 | 18 | 457 | 55 |
| In five years or more | 171 | – | 186 | – |
| | <u>848</u> | <u>77</u> | <u>810</u> | <u>55</u> |
| | <u><u>848</u></u> | <u><u>77</u></u> | <u><u>810</u></u> | <u><u>55</u></u> |

18 Share capital

Authorised share capital:

| | | |
|---------------------------------------|-------------------|------------|
| | 2008 | 2007 |
| | £ '000 | £'000 |
| 27,500,000 Ordinary shares of 1p each | <u>275</u> | <u>275</u> |

Allotted, called up and fully paid:

| | | | | |
|----------------------------|--------------------------|-------------------|-------------------|------------|
| | 2008 | | 2007 | |
| | 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> |

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

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

| Date of grant | Start of year/ Granted in year | Cancelled/ lapsed | End of year | Exercise Price | Notes |
|----------------------|---|------------------------------|--------------------|---------------------------|--------------|
| 17 December 2002 | 25,000 | – | 25,000 | £3.25 | (a) |
| 29 August 2003 | 516,795 | (511,342) | 5,453 | £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 | 125,000 | (113,200) | 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 | – | 18,000 | £2.50 | (b) |
| 30 September 2005 | 25,000 | (25,000) | – | £2.50 | (a) |
| 27 July 2006 | 1,000,000 | – | 1,000,000 | £2.00 | (b) |
| 27 July 2006 | 75,000 | (75,000) | – | £2.50 | (b) |
| 31 May 2007 | 263,000 | – | 263,000 | £2.00 | (b) |
| 5 December 2007 | 100,000 | – | 100,000 | £2.00 | (b) |
| 5 March 2008 | 188,200 | (25,000) | 163,200 | £2.00 | (b) |
| 2 October 2008 | 278,000 | – | 278,000 | £2.00 | (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

19 Share-based payments

Share options subject to equity-settled share-based payments are set out within note 18.

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 company'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 2008 of £ 111,000 (2007: £70,000) 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 to the subsidiary 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.

| | 2008 | 2007 |
|-----------------------------------|------------|---------------|
| Share price at grant date (pence) | 150 | 150 |
| Exercise price (pence) | 200 | 200 |
| Expected volatility | 26% | 20% |
| Risk free rate | 4.05-4.09% | 4.51 - 5.69 % |
| Expected dividend yield | 0.0% | 0.0 % |

20 Reserves

| Group | Share premium account £'000 | Share option reserve £'000 | Foreign exchange reserve £'000 | Profit and loss account £'000 |
|--|--------------------------------|-------------------------------|-----------------------------------|----------------------------------|
| At 1 January 2008 | 26,397 | 266 | 21 | (12,709) |
| Loss for the year | - | - | - | (1,102) |
| Recognition of equity-settled share-based payments in the year | - | 111 | - | - |
| Loss on re-translation of foreign subsidiary | - | - | (8) | - |
| At 31 December 2008 | <u>26,397</u> | <u>377</u> | <u>13</u> | <u>(13,811)</u> |

| Company | Share premium account £'000 | Profit and loss account £'000 |
|---------------------|--------------------------------|----------------------------------|
| At 1 January 2008 | 26,397 | (29,882) |
| Profit for the year | - | 6,883 |
| At 31 December 2008 | <u>26,397</u> | <u>(22,999)</u> |

21 Reconciliation of shareholders' funds and movements on reserves

| The group | 2008 | 2007 |
|---|---------------|---------------|
| | £ '000 | £'000 |
| Loss for the financial year | (1,102) | (4,518) |
| Foreign exchange movement | (8) | 21 |
| Share-based payment reserve | 111 | 70 |
| Net reduction to shareholders' equity funds | (999) | (4,427) |
| Opening shareholders' funds | <u>14,200</u> | <u>18,627</u> |
| Closing shareholders' funds | <u>13,201</u> | <u>14,200</u> |

22 Notes to the statement of cash flows

Reconciliation of operating loss to net cash inflow from operating activities

| | 2008 | 2007 |
|---|---------------|--------------|
| | £ '000 | £'000 |
| Operating loss | (225) | (3,201) |
| Depreciation and amortisation | 5,918 | 5,941 |
| Profit on sale of fixed assets | (33) | – |
| Decrease/(increase) in stocks | 8 | (80) |
| Decrease in debtors | 2,863 | 531 |
| (Decrease)/increase in creditors | (1,069) | 1,054 |
| Equity-settled share based payments in the year | 111 | 70 |
| (Gain)/loss on re-translation of foreign subsidiary | (8) | 21 |
| Net cash inflow from operating activities | <u>7,565</u> | <u>4,336</u> |

Returns on investments and servicing of finance

| | 2008 | 2007 |
|---|--------------|----------------|
| | £'000 | £'000 |
| Interest received | 62 | 106 |
| Interest paid | (931) | (1,417) |
| Net cash outflow from returns on investments and servicing of finance | <u>(869)</u> | <u>(1,311)</u> |

Taxation

| | 2008 | 2007 |
|----------|--------------|--------------|
| | £'000 | £'000 |
| Taxation | <u>(11)</u> | <u>(20)</u> |

22 Notes to the statement of cash flows (continued)

Capital expenditure and financial investment

| | 2008 £'000 | 2007 £'000 |
|---|----------------------|----------------|
| Payments to acquire tangible fixed assets | (2,673) | (4,427) |
| Receipts from sale of fixed assets | 43 | – |
| Net cash outflow for capital expenditure and financial investment | <u>(2,630)</u> | <u>(4,427)</u> |

Financing

| | 2008 £'000 | 2007 £'000 |
|---|----------------------|----------------|
| Invoice discounting facility advanced/ (repaid) in the year | 244 | (4,285) |
| Loans (repaid)/ advanced in the year | (3,001) | 3,001 |
| Receipts from new finance leases | 27 | – |
| Repayment of amounts due under finance leases | (1,117) | (1,037) |
| Net cash outflow from financing | <u>(3,847)</u> | <u>(2,321)</u> |

Reconciliation of net cash flow to movement in net debt

| | 2008 £'000 | 2007 £'000 |
|---|----------------------|----------------|
| Increase/(decrease) in cash in the year | 208 | (3,743) |
| Cash outflow from decrease in debt | 3,847 | 2,321 |
| Change in net funds from cash flows | <u>4,055</u> | <u>(1,422)</u> |
| Net debt at 1 January | <u>(9,726)</u> | <u>(8,304)</u> |
| Net debt at 31 December | <u>(5,671)</u> | <u>(9,726)</u> |

22 Notes to the statement of cash flows (continued)

Analysis of changes in net debt

| | At 1 Jan 2008 £'000 | Net Cash flows £'000 | At 31 Dec 2008 £'000 |
|------------------------------|---------------------------|----------------------------|----------------------------|
| Net cash: | | | |
| Cash in hand and at bank | 9,085 | 211 | 9,296 |
| Debt due within one year: | | | |
| Overdraft | – | (3) | (3) |
| Invoice discounting facility | (11,407) | (244) | (11,651) |
| Finance leases | (1,112) | 799 | (313) |
| Shareholders loan | (3,000) | – | (3,000) |
| | <u>(15,519)</u> | <u>552</u> | <u>(14,967)</u> |
| Debt due after one year: | | | |
| Finance leases | (291) | 291 | – |
| Shareholders loan | (3,001) | 3,001 | – |
| | <u>(3,292)</u> | <u>3,292</u> | <u>–</u> |
| Net debt | <u>(9,726)</u> | <u>4,055</u> | <u>(5,671)</u> |

23 Contingent liabilities

The group and the company had no contingent liabilities at 31 December 2008 or at 31 December 2007.

24 Capital commitments

The group and the company had capital commitments totalling £nil at 31 December 2008 (2007: £453,000).

25 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 £ 303,000 (2007: £228,000).