



**faces not numbers**

## Corporate statement

AdEPT Telecom is one of the UK's leading comms integrators. The Company supplies best of breed products from every major network in the UK, tailored to suit the customer. The Company provides fixed line calls, line rental, mobile and data connectivity products to thousands of business and residential customers across the UK.

- **As at March 2010, AdEPT has completed the acquisition and integration of 16 telecom businesses, all of which have been successfully integrated and now trade under the AdEPT Telecom brand.**
- **AdEPT Telecom has strategic relationships with tier-1 suppliers such as BT, Cable & Wireless and Carphone Warehouse.**

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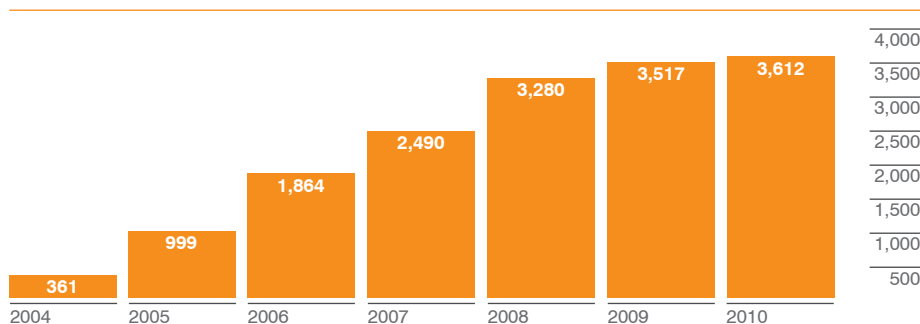
## Financial highlights

- Seventh year of **increased underlying EBITDA**
- EBITDA excluding non-recurring costs **increasing by 3% to £3.6m** (2009: £3.5m)
- Underlying EBITDA% **increasing by 1.7% to 14.0%** (2009: 12.3%)
- Excellent cash generation with free cash flow, after interest and before non-recurring costs, **of £1.9m** (2009: £2.1m)
- 86% of reported EBITA (£3.1m) converted into **cash generated from operating activities (£2.7m)** (2009: 103%)
- **Net debt reduction of £1.6m** year-on-year (2009: £0.5m) to £9.2m (2009: £10.8m)
- **Adjusted earnings per share**, after adding back amortisation and non-recurring costs, of 9.10p per share (2009: 10.44p)

## Operational highlights

- **10% increase in ARPU** as at March 2010 to £77.97 (2009: £71.16)
- Further progress in increasing **revenue from fixed monthly charges to 48% of revenue** for the year ended March 2010 (2009: 43%)
- **Greater than 70% increase to mobile and data revenues** year-on-year
- 86% of revenue generated from **customers taking more than one product or service** (2009: 81%)
- 23% of revenue generated from **customers taking three or more products** (2009: 15%)
- Overhead costs (excluding one-off restructuring costs) **decreased to 23% of revenue** (2009: 24%)
- Prior year improvement to credit collection processes and debt management maintained with **year end debtor days of 30** (2009: 29 days)

EBITDA £'000s



Seventh consecutive year of increasing underlying EBITDA

## EBITDA

### 7th consecutive year of increasing EBITDA

EBITDA increased 3% from £3.5m to £3.6m

## Net debt

### Net debt reduced by £1.6m

Net debt reduced to £9.2m from £10.8m

## faces not numbers

AdEPT has been providing customers with cost effective solutions-based communications since 2003. With named account managers for all of our customers and award-winning customer service, AdEPT has thousands of customers choosing it as preferred communications provider.

## What we do at a glance

AdEPT Telecom is one of the UK's leading independent providers of voice and data telecommunications services.

The Company provides fixed line calls, line rental, mobile and data connectivity products to thousands of business and residential customers across the UK. AdEPT employs 65 members of staff at its offices in Tunbridge Wells, Kent.

### Fixed line



AdEPT offers a comprehensive range of business telecom products for all sizes of business. AdEPT provides great value for money combined with award-winning service levels. This gives customers peace of mind and a service they can trust and rely on.

- AdEPT is proud to be one of BT Openreach's ten largest customers.
- AdEPT's Inbound Call Handling services offer a simple and scalable way to manage inbound calls, with online access enabling customers to implement changes instantly.

### Mobile



The AdEPT mobile team offers simple, cost effective mobile tariffs and competitively priced handsets with a service designed to meet individual business requirements.

- AdEPT understands the important role of mobile telephony in today's business communication. No matter the size of business, AdEPT has the ability to tailor a package to suit the customer requirements.
- AdEPT provides impartial price comparison across all of the mobile networks based on the specific requirements of the customer.

### Broadband



AdEPT broadband products offer unlimited downloads, internet speeds of up to 16Mb, 50Mb of webspace and low contention rates (there aren't lots of people sharing a line).

- AdEPT's next generation business grade broadband packages offer great value.
- AdEPT partners with a wide range of network providers. As more and more of the 21st century networks are only available in parts of the country, AdEPT will find the best solution for wherever the customer is based.

© Data connectivity

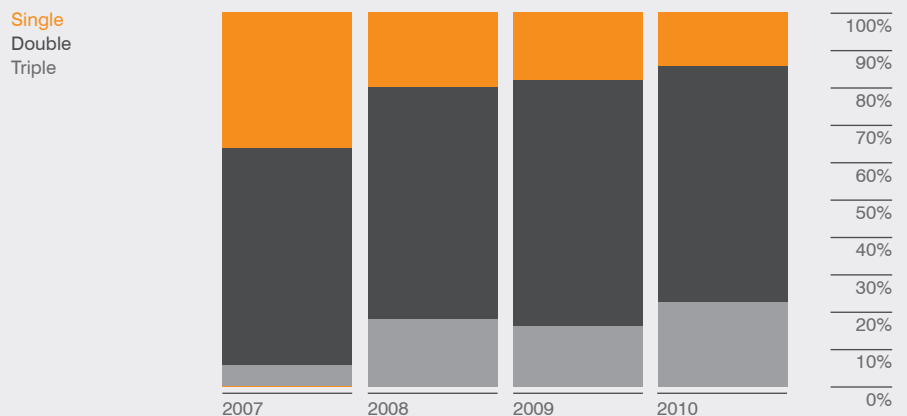


In June 2010 AdEPT Telecom was named by Ja.net (the Joint Academic Network) as one of only 20 companies approved to sell data products to Universities, Colleges, Higher Education and research establishments connected to the Ja.net network in the UK.

**AdEPT provides fast, higher quality leased line connections and MPLS networks. Solutions are available from 2Mb to 1Gb with a service level agreement at a really low cost.**

- AdEPT partners with all the major networks in the UK and can find the best solution for the customer.
- Whether you are a corner shop wanting a simple business broadband connection or a nationwide multi-site company needing the most complex wide area network, AdEPT has the right solution.
- AdEPT's largest data network has over 1,000 sites.

Customers taking multiple products %



86% of revenue generated from customers taking more than one product or service

# Chairman's statement

Roger Wilson



A creditable performance during the recession with **net debt reduction of £1.6m during the year.**

## Summary

For the year ended 31 March 2010 AdEPT Telecom plc (AdEPT or the Company) delivered another strong trading performance with:

### Financial highlights

- Seventh consecutive year of increased underlying EBITDA
- EBITDA excluding non-recurring costs increasing by 3% to £3.6m (2009: £3.5m)
- Underlying EBITDA margin % increasing by 1.7% to 14.0% (2009: 12.3%)
- Net debt reduction of £1.6m year-on-year (2009: £0.5m) to £9.2m (2009: £10.8m)

### Operational highlights

- Greater than 70% increase to mobile and data revenues year-on-year
- 86% of revenue generated from customers taking more than one product or service (2009: 81%)
- 23% of revenue generated from customers taking three or more products (2009: 15%)

It is with great pleasure that I announce our annual results.

### Review of operations

During the past year the Company has focused on larger customer contracts, with target market businesses of 25 to 1,000 employees, which has enhanced our ability to benefit from scale efficiencies and cross selling. Following a number of multi-product, multi-site contract wins during the year AdEPT Telecom is increasingly being recognised as one of the UK's leading communications integration specialists, with over 700 multi-site customers. Important customer wins during the year were Nationwide Autocentres with 216 sites, and a further 120 sites from Rexel.

This strategy of targeting larger customers has continued and since the year end the Company has signed a new 36 month contract to supply a national electronic games operator with a voice and data network of 450 sites, with an estimated contract value in excess of £800,000. In addition AdEPT Telecom has been named by Ja.net (the Joint Academic Network) as one of only 20 companies approved to sell data products to Universities, Colleges, Higher Education and research establishments connected to the Ja.net network in the UK.

Our revenue is becoming more stable as we reduce our reliance on variable monthly call charges, replacing them with fixed monthly line rentals. The proportion of revenue derived from fixed monthly charges now represents 48% of total revenue (2009: 43%).

In an exceptionally tough economic climate during the last twelve months, it is testament to the resilience of the business model and the skills of the directors and management team in place at AdEPT that the business has been successful in recording its seventh consecutive year on underlying EBITDA growth.

The strong cash flow generation continued during the year with £1.9m of free cash flow

after interest. This was used to fund £0.3m of non-recurring costs and £1.6m net debt reduction. The Company ended the period with £1.6m lower net borrowings, which at March 2010 was £9.2m. Since the year end the Company has paid down a further £0.6m of debt, reducing net debt at 30 June 2010 to £8.6m.

### New products

AdEPT was originally a fixed-line telecom provider but is increasingly expanding and diversifying its product range and has become one of the UK's leading communication integrators offering best of breed products from all major UK networks.

A large number of data connectivity products were launched in the year including:

- EB-SA – up to 2Mb assured symmetrical broadband
- Ethernet First Mile
- Direct Internet Access
- MPLS IP-VPN

A new range of 21st Century Network-based Inbound Call Handling products has enabled us to win some significant call centre contracts.

### Key suppliers

AdEPT provides products from the following tier-1 networks in the UK:

- BT → Kcom
- Virgin Business → Vodafone
- Cable and Wireless Worldwide → O2
- Opal (Carphone Warehouse) → Orange
- Griffin → T-Mobile

### Cross selling of products

A key strategy for the Company remains to sell more products to new and existing customers. The product penetration has increased during the year: at March 2010 86% of revenue was generated from customers taking more than one product (2009: 81%).

In the larger customer base (those spending more than £1,000 per month) we have seen further improvement in product penetration. At March 2010 customers taking more than one product accounted for 97% of revenue generated (2009: 94%). The proportion taking three or more products increased to 58% at March 2010 (2009: 45%).

### Employees

The improved profitability this year was made possible by the continued hard work and focus of all employees at AdEPT Telecom. As a Company we are immensely proud of the track record we have created in a relatively short period of time and on behalf of the Board I would like to take this opportunity to thank all of our employees for their hard work.

I would also like to take this opportunity to thank the former directors and non-executive directors who stepped down during the year for their substantial contributions to AdEPT and to wish them all the best for the future.

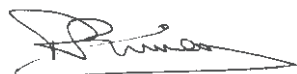
### Shareholder benefits scheme

The AdEPT shareholder benefits scheme has continued to attract new members during the year. The scheme, which is available to all shareholders owning a minimum of 1,000 shares, provides eligible shareholders with free residential line rental worth approximately £120 per annum for as long as they remain eligible shareholders.

### Outlook

The management actions taken in the prior year to reduce overheads and tighten credit management have enabled the Company to increase EBITDA levels despite top line pressure. The business focus for the coming year remains on continued development of organic sales, maintaining profitability and cash flow generation, which will be used to reduce net borrowings. This has been demonstrated by the £0.6m net debt reduction already achieved since March 2010. We will therefore continue to grow our organic sales channels, invest in new products and complement this with continued investment in retention activities to retain more customers.

Despite the continued uncertainty of the economic outlook, I am confident that the Company is in a much stronger position with its increasing ability to provide complex multi-site, multi-product solutions to larger customers. This should provide more stability through longer customer contract durations and a more stable customer base. We will also continue to focus on our customer cash collection to ensure payment terms do not get extended.



**Roger Wilson**

**Non-executive Chairman**

6 July 2010

## Multi-site solution specialist



**Working in partnership with one of the leading worldwide distributors of electrical solutions and equipment AdEPT Telecom put in place a complete yet flexible communications solution. AdEPT Telecom supplies services to over 400 sites for this customer under a number of brand names.**

### The customer challenges

As part of a property cost and other overhead cost reductions, the customer wanted to divert all sales enquiries to a central call centre as an alternative to having sales function at each of their sites across the country. The customer required this to be done without having to change telephone numbers and thus not affect the customer experience. The solution was required to ensure that all inbound calls were handled and routed effectively, including overflow calls to a secondary location when the central call centre was at capacity. Combined with this, the customer had bespoke head office and branch billing requirements along with monthly management reporting to ensure efficient estate management.

### The AdEPT Telecom solutions

- Port the existing number into the 'network' so that calls can be routed to a central location without the need to change numbers
- Provision of comprehensive and accurate management reports on calls
- Ability to redirect calls instantly to and office regardless of location
- Named account management and project managers with specialist technical support to advise the customer throughout the process
- Bespoke billing to meet the customer requirements

With over 700 multi-site companies, AdEPT Telecom provides telecoms solutions to companies with anything from three or four sites up to several hundred sites with complex branch and head office relationships and multiple brand names.

# Financial and business review

John Swaite



## Summary

- Group revenue reduction of 10%, driven by call volume reductions from lower economic activity, offset by revenue growth in data and mobile division
- The larger customer focus has resulted in 9.6% increase in average customer monthly spend year-on-year. At March 2010 the largest 200 customers accounted for one-third of total revenue
- Despite top line pressure the Company has recorded its seventh year of increased EBITDA. This has been achieved through continued operational efficiencies with underlying operating costs reduced by 1% to 23% of revenue

### Revenue

#### Revenue by product area

Group revenue decreased by 10% to £25.7m (2009: £28.6m):

- Fixed line revenues were 13.1% lower at £24.0m (2009: £27.6m), with this reduction driven by call volume reductions which is primarily a reflection of lower economic activity. The Company's previous reliance on call revenues has been much reduced with call revenue providing only 47% of total revenue in March 2010 (2009: 56%).
- Mobile revenues were ahead 86.1% to £0.32m (2009: £0.18m). We have only been selling mobiles for two years and handset volumes increased during the year by 548 to 1,369 (2009: 821). The revenue per connection has increased to £232 (2009: £208) driven by the increased take up of smartphones.
- Data product revenues were up 72.5% to £1.1m (2009: £0.6m), with increases to the number of data circuits in place. At March 2010 the contract revenue from data product orders placed awaiting connection was £0.4m due to longer connection timescales.

Mobile and data division revenues represented 8.7% of March 2010 total revenue (March 2009: 5.7%).

The proportion of revenue derived from business customers has remained at 95% (2009: 95%).

#### Fixed monthly revenue streams

The Company continues to focus on fixed monthly revenue streams so as to reduce revenue volatility. The proportion of revenue, which is fixed monthly values, increased to 48% of total revenue for the year ended March 2010 (2009: 44%) following the continued focus on multi-product sales (calls, line rental and data products) and the introduction of a broad range of data connectivity products in 2008.

### Cross selling

The proportion of revenue generated from customers taking more than one product or service has increased to 86% for the year ended March 2010 (2009: 81%) which should provide a more stable future revenue stream.

The proportion of higher spending customers (recurring revenues of more than £1,000 per month) taking three or more products increased to 58% at March 2010 (2009: 45%).

### Average spend per customer

The Company is now increasingly focusing on larger customers and AdEPT's largest 200 customers account for approximately one-third of March 2010 revenue.

Average customer monthly spend for business customers increased year-on-year by 9.6% to £77.97 in March 2010 reflecting the Group's success in gaining contracts with higher spending customers and an increasing proportion of higher spending business customers.

### Gross margin

Gross margins for calls, lines, data connectivity and broadband have experienced marginal increases during the year ended March 2010, despite pressures arising from a highly competitive market. As a result, gross margin has improved during the year ended March 2010 to 37.2% (2009: 36.2%).

Future gross margin pressure is anticipated as our product mix moves increasingly towards the lower margin line rental, data connectivity and broadband revenue streams.

### Administration costs

#### Operational efficiencies achieved

Cost savings have been delivered as planned from:

- operational efficiencies associated with managing larger customers; and

## Seventh consecutive year of underlying EBITDA growth since AdEPT's inception in 2003.

→ savings derived from the restructuring undertaken towards the end of the 2009 financial year.

As a result, the Company has seen a £0.9m reduction in underlying operating costs during the year ended March 2010 to £5.9m which is 23% of revenue (2009: 24%).

We believe that we remain one of the lowest cost operators in the industry.

### Non-recurring costs

The non-recurring costs identified are restructuring costs which will not recur next year. These costs are represented by staff and the close out of leases acquired with the Telecom Direct acquisition.

### Impact of corporate failures

Whilst corporate failure has increased in the year it is still so small as to have a minimal impact on overall results. In the year ended March 2010 there were 207 such failures in our customer base (2009: 149). These were mostly smaller companies with average debt per failed customer during the year ended March 2010 being £435 (2009: £898). We anticipate the relatively high corporate failure rate may continue some time after the economic recovery, but that as a result of the improvements made in the prior year to collection processes the Company's exposure and risk has been reduced.

### EBITDA

I am pleased to report the seventh consecutive year of underlying EBITDA growth since AdEPT's inception in 2003.

Excluding non-recurring costs, EBITDA has increased by £0.1m during the year despite top line pressure. The Company has focussed on the underlying profitability of customers and revenue streams; as a result revenue reduction has been more than absorbed by gross margin improvement combined with the operational efficiencies and costs savings from the earlier restructuring.

## Multi-product solution specialist



**AdEPT Telecom has a business partnership with a leading supplier of gas and electricity to the business sector. AdEPT Telecom provides the customer with a multi-product solution including outbound and inbound calls and line rental. The customer is highly reliant upon the communications solutions to ensure business continuity.**

### The customer challenges

The customers call centre receives large volumes of calls both inbound and outbound. Communications is considered a business critical supply to ensure business continuity and sales generation. There are constantly changing staff levels as campaigns start and end, therefore management of overflow of calls when at maximum capacity is vital. Recording calls is imperative to meet regulatory and compliance obligations.

### The AdEPT Telecom solutions

- ISDN 30 technical support to ensure a cost effective, fully scalable and robust solution
- Non-geographic 21st Century Network inbound solutions – the ability to manage call routing by campaign
- Network based functionality, providing:
  - Call Recording
  - Disaster recovery
  - Additional revenue stream
- Out of hours support 24/7
- Named account management and project managers providing the customer with specialist technical support
- Site assurance – calls can be diverted off site in case of emergency

AdEPT Telecom already provides telecoms solutions to call centres in a wide range of industries such as legal advice, telesales, debt help lines and insurance.

# Financial and business review continued

## Summary of three year financial performance:

	Year ending March				
	2010 £'000	Year-on -year %	2009 £'000	Year-on -year %	2008 £'000
Revenue	25,725	(10)%	28,567	21%	23,618
Gross margin	9,561	(8)%	10,341	18%	8,754
EBITDA*	3,612	3%	3,517	7%	3,280
Net debt	9,215		10,843		11,295

\* excluding non-recurring costs

### Earnings per share

Adjusted earnings per share, based on retained earnings adding back amortisation and non-recurring costs (see Note 22), has reduced to 9.27p per share (2009: 10.44p). This arises largely due to the year-on-year movement in the tax charge.

### Cash flow

#### Cash conversion

The Group benefits from an excellent operating cash model, with EBITA turning into cash. Reported EBITA turned into net cash from operating activities is 86% (2009: 103%). There was a net working capital outflow of £0.5m during the year arising from the reduction in trade payables following the reduction in direct costs due to top line reductions.

#### Strong management of credit risk

The Group has continued to manage its credit risk in the current economic climate and the collections of trade receivables have been maintained during the year with customer collection periods of 30 days (2009: 29 days).

#### Increase in cash balances

After servicing its debt the Group achieved an increase in cash and cash equivalents of £0.2m during the year. All acquisitions have been paid for and no further earn-out payments are due.

### Capital expenditure

The Group has low capital requirements and therefore expenditure on tangible assets is low at 0.2% of revenue (2009: 0.1%). Intangible asset additions were £0.1m (2009: £0.1m).

### Net debt

A key strength of AdEPT is its consistent, proven ability to generate strong free cash flow. As a result of the Company's focus on underlying profitability and cash conversion, free cash flow after bank interest of £1.9m was generated during the year ended March 2010; £0.3m of this was used to fund non-recurring costs with £1.6m being applied to net reduction. Net debt, which comprises cash balances and bank borrowings, has therefore improved to £9.2m (2009: £10.8m).

Net debt has been reduced from a peak of more than £12m in November 2007 to £9.2m at 31 March 2010. Free cash flow of £5.8m has been generated since AdEPT acquired Telecom Direct in November 2007 and in addition to the debt reduction of £2.8m a further £3m has been paid in restructuring costs largely associated with the assimilation of Telecom Direct's business.

The Company's available banking facilities are described in Note 23 to the financial statements. The existing facilities are renewable in December 2011, and the Company is already in appropriate discussion with its bankers. The Company continues to manage its exposure to interest rate risks arising from financing activities.

## Key Performance Indicators (KPIs)

	Fixed line services	Mobile, data and other services	Total
<b>Year ended 31 March 2010</b>			
Revenue	23,953	1,772	25,725
Gross profit	8,861	699	9,561
Gross margin %	37.0	39.4	37.2
<b>Year ended 31 March 2009</b>			
Revenue	27,554	1,013	28,567
Gross profit	9,968	373	10,341
Gross margin %	36.2	36.8	36.2

### Key performance indicators (KPIs)

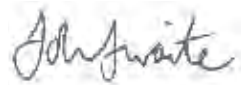
The KPIs outlined above are intended to provide useful information when interpreting the accounts.

### Resilient business model

Despite the unprecedented conditions in the UK economy over the last 18–24 months the Board believes that AdEPT operates a resilient business model and has a strong customer proposition which it is believed will present opportunities in the coming year. These features include:

- highly cash generative with strong underlying profitability;
- supplies are nearly all business critical – an essential part of the customer's daily operational requirements;
- highly automated systems provides sector leading labour costs: turnover productivity;
- low capital investment requirements relative to turnover;
- continued focus on broadening its product range, particularly with regard to data connectivity;

- customers are spread across all industries, the top ten customers account for approximately 13.5% of revenues;
- trade suppliers and partners are all top tier suppliers, providing confidence in the continuity and reliability of service to customers;
- 64.0% of the Company's customers pay by monthly direct debit, reducing the Company's credit risk;
- the Company has agreed banking facilities through to December 2011; and
- with the reorganisation and the level of cash generation forecast, the Board expects the Company's net borrowing position to improve significantly over the next twelve months.



**John Swaite**  
Finance director  
6 July 2010

### Free cash flow

# +£1.9m

Free cash flow after bank interest of £1.9m

### EBITDA %

# +1.7%

Underlying EBITDA % increased by 1.7% to 14.0%

# Board of directors

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## **Roger Wilson**

### **Non-executive Chairman (BA Hons, DMS)**

Roger has worked in the telecom industry for the past 18 years. He was the first managing director for Telewest Communications' residential consumer business in the UK from January 1997 until March 1998. Roger spent three years between June 1998 and April 2001 in Poland establishing a telecom business for American investors. Moreover, he was Managing Director of ECTA, the European Competitive Telecommunications Association, until January 2006. Roger is a member of the Company's remuneration and audit committees.

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## **Christopher Fishwick FRSA**

### **Non-executive Deputy Chairman**

Chris worked in the City of London for over 25 years, starting his career as a Member of the London Stock Exchange, and latterly as chief executive of Aberdeen Asset Managers Limited. He brings extensive experience of corporate life, having been on the boards of more than 15 quoted companies covering the sectors of Property, Insurance, Technology, Asset Management and Smaller Companies. He has spent the last five years as a venture capitalist investing in smaller quoted and unquoted companies. Chris is a member of the Company's remuneration and audit committees.

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## **Dusan Lukic**

### **Non-executive director**

Dusan (also known as Dusko) has worked for over 20 years as an institutional stockbroker covering UK and Continental European equity markets with City firms such as Wood Mackenzie, Salomon Brothers, Schroder Securities and, latterly, at Cazenove. At Cazenove, Dusko was the director responsible for Pan European equity sales to German institutions. During 2004 he augmented his stock market experience by working at Eurovestech PLC, an AIM-quoted private equity investment company and since April 2005 he has been employed by Millpath Limited which acts as investment adviser to Draganfly Investments Ltd, an AIM quoted Investment Company. Dusko is a member of the Company's remuneration and audit committees.

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## **Ian Fishwick**

### **Managing director (MBA, ACMA)**

Prior to founding AdEPT Telecom in February 2003, Ian spent 15 years as a managing director in the telecom industry. From 1983 to 1995 Ian rose through the ranks at Marconi Secure Systems including two years as Financial Controller and five years as managing director. From 1996 to 2000 Ian was a managing director at Telewest Communications, managing Telewest North West, Telewest London and South East, and Cable London. Ian was managing director of World Access (UK) Limited from 2000 to 2001.

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## **John Swaite**

### **Finance director (BA Hons, ACA)**

John, joined AdEPT Telecom in April 2008 as Group Financial Controller having previously spent nine years with Horwath Clark Whitehill LLP (HCW), the Group's auditor. In his role as senior corporate finance manager for HCW John was responsible for the Reporting Accountant documentation prepared for the flotation of AdEPT on AIM in February 2006. He was promoted to Finance director in January 2009.

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## **Amanda Woodruffe**

### **Operations director**

Amanda has held a wide variety of Customer Operations roles for major companies. At BT she was a customer service trouble-shooter, winning the Chairman's award for Quality. Amanda worked with Ian Fishwick on the cable mergers of Kent, Essex and London before taking on a national role at Telewest. She was a key member of the team that set up the discount airlines Go & Hapag Lloyd Express. Her consultancy assignments have been worldwide for companies such as Sonera (mobile) and BoStream (broadband in Sweden). She also worked as a consultant at EdExcel following the highly-published A-level fiasco in 2002. EdExcel went on to become 'best examination board' in 2003.

# Company information

## Directors

Roger Wilson  
Ian Fishwick  
Amanda Woodruffe  
John Swaite  
Dusko Lukic  
Chris Fishwick  
Joe Murphy (appointed 19 July 2010)  
Edward Williams (resigned 3 April 2009)  
Christopher Riggs (resigned 7 May 2009)

## Secretary

Maclay Murray & Spens LLP

## Company number

4682431

## Registered office

One London Wall  
London EC2Y 5AB

## Contact details

T: 0844 5577300  
E: [business.services@adept-telecom.co.uk](mailto:business.services@adept-telecom.co.uk)  
W: [www.adept-telecom.co.uk](http://www.adept-telecom.co.uk)

## Auditors

### Horwath Clark Whitehill LLP

Chartered accountants and registered auditors  
Jaeger House  
5 Clanricarde Gardens  
Tunbridge Wells  
Kent TN1 1PE

## Bankers

### Barclays Bank plc

1 Churchill Place  
London E14 5HP

## Nominated adviser and broker

### Astaire Securities plc

46 Worship Street  
London EC2A 2EA

## Solicitors

### Maclay Murray & Spens LLP

One London Wall  
London EC2Y 5AB

## Registrars

### Computershare Investor Services plc

PO Box 82  
The Pavillions  
Bridgewater Road  
Bristol BS99 7NH

# Directors' report

## For the year ended 31 March 2010

The directors present their report and the financial statements for the year ended 31 March 2010.

### Statement of directors' responsibilities

The directors are responsible for preparing the directors' report 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 International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting 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; and
- 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 are sufficient to show and explain the Company's transactions and 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.

They are further responsible for ensuring that the report of the directors and other information included in the annual report and financial statements is prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the AdEPT Telecom plc website is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

### Provision of information to auditors

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information.

### Principal activities and review of business

The principal activity of the Company is the provision of voice and data communication services to both domestic and business customers. A review of the business is contained in the chairman's statement on page 4.

### Results and dividends

The loss for the year, after taxation, amounted to £354,749 (2009: £1,240,975).

No dividend (2009: £Nil) was paid to ordinary shareholders during the year and the directors do not recommend the payment of a final dividend.

### Political and charitable contributions

During the year the Company made charitable donations of £4,163 (2009: £2,359). No political donations were made during the current or previous financial year.

### Company's policy for payment of creditors

The Company does not follow any code or statement on payment practice, but the policy of the Company is to abide by such payment terms as are agreed with suppliers within the terms of supply. By 31 March 2010 there were 45 days' purchases outstanding (2009: 51 days), calculated on a ratio of trade creditors to total purchases.

### Substantial interests

At 31 March 2010 there were the following substantial interests (3% or more) in the Company's ordinary share capital.

	% Holdings in ordinary share capital 31 March 2010
Croyde Limited	13.6
Invision III Limited Partnership	10.5
Codium Limited	9.3
Richard Blakesley	6.1
Invision Capital III Limited Partnership	5.5
Oathall Plc	5.5
Ian Fishwick	5.4
Brewin Dolphin	5.0
Octopus Investments	4.4
Fiske Private Clients	3.6
Roger Wilson	3.4
Patricia Wilson	3.4

Croyde Limited, Codium Limited and Bittium Limited are all controlled by J F Worthytrust Limited which holds all the shares in those companies under a nominee agreement to the order of Christopher Fishwick, Ian Fishwick's brother.

The general partner for each of Invision III Limited Partnership and Invision Capital III Limited Partnership is Aureus Capital Partners Limited.

### Key performance indicators

A review of Key Performance Indicators is included in the financial and business review.

### Principal risks and uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Company's long-term performance and could cause actual results to differ materially from expected results.

#### Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. External funding facilities are managed to ensure that both short term and longer term funding is available to provide short term flexibility whilst providing sufficient funding to the Company's forecast working capital requirements.

#### Credit risk

The Company extends credit to customers of various durations depending on customer credit worthiness and industry custom and practice for the product or service. In the event that a customer proves unable to meet payments when they fall due, the Company will suffer adverse consequences. To manage this, the Company continually monitors credit terms to ensure that no single customer is granted credit inappropriate to its credit risk. Additionally, 64% of our customers pay by monthly direct debit. The risk is further reduced by the customer base being spread across all industry and service sectors. The top ten customers account for approximately 13.5% of revenues.

#### Competitor risk

The Company operates in a highly competitive market with rapidly changing product and pricing innovations. We are subject to the threat of our competitors launching new products in our markets (including updating product lines) before we make corresponding updates and development to our own product range. This could render our products and services out-of-date and could result in loss of market share. To reduce this risk, we undertake new product development and maintain strong supplier relationships to ensure that we have products at various stages of the life cycle.

Competitor risk also manifests itself in price pressures which are usually experienced in more mature markets. This results not only in downward pressure on our gross margins but also in the risk that our products are not considered to represent value for money. The Company therefore monitors market prices on an ongoing basis.

#### Acquisition integration execution

The Company has set out that its strategy includes the acquisition of businesses where they are earnings enhancing. The Board acknowledges that there is a risk of operational disturbance in the course of integrating the acquired businesses with existing operations. The Company mitigates this risk by careful planning and rigorous due diligence.

# Directors' report continued

For the year ended 31 March 2010

## Employee involvement

The Company aims to improve the performance of the organisation through the development of its employees. Their involvement is encouraged by means of team working, team briefings, consultative committees and working parties.

The Company has in place an indemnity insurance policy for the benefit of the senior management and employees at a cost of £8,400 (2009: £8,400).

## Disabled employees

The Company is committed to equality of employment and its policies reflect a disregard of factors such as disability in the selection and development of employees.

## Auditors

The auditors, Horwath Clark Whitehill LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

By order of the Board



**Ian Fishwick**

**Director**

6 July 2010

# Corporate governance

The Board recognises the importance of sound corporate governance and intends to comply in so far as practicable with the Quoted Companies Alliance's Corporate Governance Guidelines for AIM companies. The guidelines recommend that the AIM company should have at least two independent non-executive directors.

The Board considers that two of the existing non-executive directors, Roger Wilson and Chris Fishwick, are not independent for the purposes of these guidelines due to their level of shareholdings in the Company, and therefore that Dusko Lukic is the only independent non-executive director.

## The Board

The Board comprises three executive directors and three non-executive directors. The Board meets regularly throughout the year and has a formal schedule of matters specifically reserved for its decision. This schedule is included in the corporate governance document available on the Company's website at [www.adept-telecom.co.uk](http://www.adept-telecom.co.uk) under the investor relations section.

If required, the directors are entitled to take independent legal advice and if the Board is informed in advance, the cost of the advice will be reimbursed by the Company. The Company secretary's services are available to all members of the Board.

## Board appointments

The Company does not have a nomination committee which is not in compliance with the combined code. Any decision to appoint further directors to the Board is a decision taken by the whole Board and where necessary new Board members will be provided with appropriate training in respect of their role and responsibilities as a public company director.

## Audit committee

An audit committee, consisting of Roger Wilson, Chris Fishwick and Dusko Lukic, operated throughout the year. The audit committee determines the application of the financial reporting and internal control and risk management procedures and the scope, quality and results of the external audit.

## Remuneration committee

A remuneration committee, consisting of Roger Wilson, Chris Fishwick and Dusko Lukic, operated throughout the year. It reviews the performance of the executive directors and considers bonus and share option schemes. None of the executive directors take part in discussions concerning their remuneration.

## Going concern

Based on the normal business planning and control procedures the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the accounts.

## Relations with shareholders

The Company has a regular dialogue with institutional shareholders and communication with shareholders is given a high priority. The Board welcomes the attendance of individual shareholders at general meetings and the opportunity to address any questions they may have. The notice of the annual general meeting will be sent to shareholders at least 23 days before the meeting. The proxies for and against each resolution are announced at the meetings. Shareholders are encouraged to view the Company's website at [www.adept-telecom.co.uk](http://www.adept-telecom.co.uk) which includes links to the Company share price, formal announcements, corporate governance and financial statements.

## Internal control and risk assessment

The directors are responsible for risk assessment and systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key features of the Company's system of internal control are:

- a management structure with clearly defined responsibilities and authority limits;
- a comprehensive system of reporting financial results to the Board. Towards the end of each financial year, detailed budgets are prepared for the following year. Re-forecasts are prepared on a regular basis during the year, for example reflecting an additional acquisition. The actual results are compared to budget and/or re-forecasts as appropriate;
- a regular review of staff skills, identifying and providing training;
- a regular review of operational performance by the executive directors, including sales and customer service;
- appraisal and authorisation of capital expenditure;
- approval of significant contracts; and
- review of the risks faced by the Company.



**Ian Fishwick**

**Director**

6 July 2010

# Independent auditors' report

## To the shareholders of AdEPT Telecom plc

We have audited the financial statements of AdEPT Telecom plc for the year ended 31 March 2010 which comprise the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and related Notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union.

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders 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 statement of directors' responsibilities, 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 Ethical Standards for auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of the profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 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 Company, or returns adequate for our audit have not been received from branches not visited by us;
- the Company financial statements are not in agreement with the accounting records and returns;
- 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.

### Keith Newman

Senior Statutory Auditor

For and on behalf of Horwath Clark Whitehill LLP

Statutory Auditor

Maidstone

6 July 2010

# Statement of comprehensive income

## For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
<b>Revenue</b>	4	<b>25,725</b>	28,567
Cost of sales		<b>(16,164)</b>	(18,226)
<b>Gross profit</b>		<b>9,561</b>	10,341
Administrative expenses		<b>(8,382)</b>	(10,451)
<b>Operating profit/(loss)</b>		<b>1,179</b>	(110)
<b>Total operating profit – analysed:</b>			
<b>Operating profit before non-recurring costs, depreciation and amortisation</b>		<b>3,612</b>	3,517
Non-recurring costs		<b>(326)</b>	(1,314)
Share-based payments		<b>(24)</b>	(27)
Depreciation of tangible fixed assets		<b>(102)</b>	(160)
Impairment of intangible assets		<b>(222)</b>	—
Amortisation of intangible fixed assets		<b>(1,759)</b>	(2,126)
Total operating profit/(loss)		<b>1,179</b>	(110)
Finance costs	7	<b>(1,293)</b>	(1,294)
Finance income		<b>—</b>	1
<b>Loss before income tax</b>		<b>(114)</b>	(1,403)
Income tax credit/(expense)	10	<b>(241)</b>	162
<b>Loss for the year</b>		<b>(355)</b>	(1,241)
Other comprehensive income		<b>—</b>	—
<b>Total comprehensive income for the year</b>		<b>(355)</b>	(1,241)
<b>Total comprehensive income attributable to:</b>			
Equity holders		<b>(355)</b>	(1,241)
<b>Earnings per share:</b>			
Basic earnings	22	<b>(1.68)p</b>	(5.89)p
Diluted earnings	22	<b>(1.68)p</b>	(5.89)p

All amounts relate to continuing operations. The Notes on pages 21 to 32 form part of these financial statements.

# Statement of financial position

As at 31 March 2010

	Note	31 March 2010 £'000	31 March 2009 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	18,663	20,532
Property, plant and equipment	12	72	135
Deferred income tax	13	612	799
		<b>19,347</b>	21,466
<b>Current assets</b>			
Trade and other receivables	14	2,901	3,218
Income tax receivable		—	50
Cash and cash equivalents		885	733
		<b>3,786</b>	4,001
<b>Total assets</b>		<b>23,133</b>	25,467
<b>Current liabilities</b>			
Trade and other payables	15	4,702	5,288
Income tax		60	—
Short-term borrowings		1,478	1,474
		<b>6,240</b>	6,762
<b>Non-current liabilities</b>			
Long-term borrowings	16	8,622	10,103
<b>Total liabilities</b>		<b>14,862</b>	16,865
<b>Net assets</b>		<b>8,271</b>	8,602
<b>Equity attributable to equity holders</b>			
Share capital	17	2,107	2,107
Share premium		7,965	7,965
Retained earnings		(1,801)	(1,470)
<b>Total equity</b>		<b>8,271</b>	8,602

The financial statements were approved and authorised for issue by the Board on 6 July 2010 and signed on its behalf.



**Ian Fishwick**  
Director

The Notes on pages 21 to 32 form part of these financial statements.

Registered number 4682431

# Statement of changes in equity

## For the year ended 31 March 2010

	Attributable to equity holders				
	Share capital £'000	Share premium £'000	Share capital to be issued £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2008	2,107	7,965	101	(357)	9,816
Loss for the year	—	—	—	(1,241)	(1,241)
Share-based payments	—	—	27	—	27
Share options lapsed during the year	—	—	(41)	41	—
Net income/(expense) recognised directly in equity	2,107	7,965	87	(1,557)	8,602
Equity at 1 April 2009	2,107	7,965	87	(1,557)	8,602
Loss for the year	—	—	—	(355)	(355)
Share-based payments	—	—	24	—	24
Share options lapsed during the year	—	—	(10)	10	—
Net income/(expense) recognised directly in equity	2,107	7,965	101	(1,902)	8,271
<b>Equity at 31 March 2010</b>	<b>2,107</b>	<b>7,965</b>	<b>101</b>	<b>(1,902)</b>	<b>8,271</b>

The Notes on pages 21 to 32 form part of these financial statements.

# Statement of cash flows

## For the year ended 31 March 2010

	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>		
Loss before income tax	(114)	(1,403)
Depreciation and amortisation	2,082	2,286
Profit on sale of property, plant and equipment	—	(1)
Share-based payments	24	27
Net finance costs	1,293	1,293
Operating cash flows before movements in working capital	3,285	2,202
(Decrease)/increase in trade and other receivables	(81)	787
Decrease in trade and other payables	(478)	(920)
Cash generated from operations	2,726	2,069
Income taxes received/(paid)	57	(79)
<b>Net cash from operating activities</b>	<b>2,783</b>	<b>1,990</b>
<b>Cash flows from investing activities</b>		
Interest received	—	1
Interest paid	(895)	(995)
Purchase of intangible assets	(112)	(762)
Purchase of property, plant and equipment	(39)	(14)
<b>Net cash used in investing activities</b>	<b>(1,046)</b>	<b>(1,770)</b>
<b>Cash flows from financing activities</b>		
Repayment of finance leases	(6)	(47)
Repayment of borrowings	(1,579)	(1,350)
Increase of bank loan	—	1,755
<b>Net cash from financing activities</b>	<b>(1,585)</b>	<b>358</b>
<b>Net increase in cash and cash equivalents</b>	<b>152</b>	<b>578</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>733</b>	<b>155</b>
<b>Cash and cash equivalents at end of year</b>	<b>885</b>	<b>733</b>
<b>Cash and cash equivalents:</b>		
Cash at bank and in hand	885	733
Bank overdrafts	—	—
<b>Cash and cash equivalents</b>	<b>885</b>	<b>733</b>

The Notes on pages 21 to 32 form part of these financial statements.

# Notes to the financial statements

For the year ended 31 March 2010

## 1. Nature of operations and general information

AdEPT Telecom plc is one of the UK's leading independent providers of voice and data telecommunications services with award winning customer service. The Company is focused on delivering a complete telecommunications service for small and medium sized business customers with a targeted product range including landline calls, line rental, broadband, mobile and data connectivity services.

AdEPT Telecom plc is incorporated and domiciled in the UK. The Company's shares are listed on AIM of the London Stock Exchange.

## 2. Accounting policies

### Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable IFRS as adopted by the EU, as issued by the International Accounting Standards Board.

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The directors have taken notice of the Financial Reporting Council guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' which requires the reasons for this decision to be explained. The directors regard the going concern basis as remaining appropriate as the Company has adequate resources to continue in operational existence for the foreseeable future based upon the Company's forecasts. The Company has adequate financing arrangements which can be utilised by the Company as required. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Certain new standards, amendments and interpretations of existing standards that have been published and which are effective for the Company's accounting periods beginning on or after 1 April 2009 and which are applicable to the Company, but which have not been adopted early are:

- IAS 39 "Financial instruments: Recognition and measurement (amendment) – Eligible Hedged Items";
- IFRS 7 "Improving disclosures about financial instruments (amendments and disclosures)";
- IFRIC 18 "Transfers of Assets from Customers";
- Amendment to IAS 32 "Classification of Rights Issues";
- Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions";
- Improvements to IFRS (covering IFRS 3 & 7 and IAS 1 & 34 and IFRIC 13); and
- Improvements to IFRS (covering IFRS 2 & 8 and IAS 1, 7, 17, 18, 36, 38 & 39 and IFRIC 9).

The adoption of these standards, amendments and interpretations is not expected to have a material impact on the Company's profit for the year or equity. Application of these standards will result in some changes in presentation of information within the consolidated financial statements.

### Segmental reporting

The directors have considered the requirements of IFRS 8 "Operating segments" and have concluded that the Company only has two segments, one of which is below the 10% threshold. This is consistent with the information reviewed by the chief operating decision maker, and therefore the segmental reporting disclosures required under IFRS 8 are not required.

### Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of the risks and rewards of ownership to the customer.

Revenue comprises both invoiced and un-invoiced amounts for performance of network services supplied by the Company during the year. The network services, which include call revenues (billing for call minutes) and fixed charges such as line rental or broadband, are generally billed monthly in arrears. The revenue is recognised in the month to which the calls relate. Revenue from mobile commissions is recognised when the customers are connected to the relevant network.

### Investments

Shares in the subsidiaries are valued at cost less provision for impairment.

### Intangible fixed assets acquired as part of a business combination and amortisation

In accordance with IFRS 3 "Business Combinations", an intangible asset acquired in a business combination is deemed to have a cost to the Company of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Company.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Impairment reviews are conducted annually from the first anniversary following acquisition.

The intangible asset "customer base" is amortised to the income statement over its estimated economic life on a reducing balance basis. The average useful economic life of all the customer bases has been estimated at 15 years (2009: twelve years).

# Notes to the financial statements continued

For the year ended 31 March 2010

## 2. Accounting policies continued

### Other intangible assets

Also included within intangible fixed assets are the development costs of the Company's billing and customer management system plus an individual licence. These other intangible assets are stated at cost, less amortisation and any provision for impairment. Amortisation is provided at rates calculated to write off the cost, less estimated residual value of each intangible asset, over its expected useful life on the following basis:

Customer management system	– Three years straight line
Other licences	– Contract licence period

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value of each asset, over its expected useful life on the following basis:

Short term leasehold improvements	– Five years straight line
Fixtures and fittings	– Three years straight line
Office equipment	– Three years straight line
Computer software	– Three years straight line

### Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and depreciated over their useful lives. The corresponding lease or hire purchase obligation is treated in the balance sheet as a liability.

The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals under operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged to the profit and loss on a straight line basis, even if payments are not made on such a basis.

### Pensions

The Company contributes to personal pension plans. The amount charged to the income statement in respect of pension costs is the contribution payable in the year.

### Capital instruments

The costs incurred directly in connection with the issue of debt instruments are charged to the income statement on a straight line basis over the life of the debt instrument.

### Income tax

Income tax is the tax currently payable based on taxable profit for the year.

Deferred income tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred income tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred income tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred income tax assets.

Deferred income tax liabilities are provided in full, with no discounting. Deferred income tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred income tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred income tax assets or liabilities are recognised as a component of income tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred income tax is also charged or credited directly to equity.

### Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date and excludes the impact on non-market vesting conditions such as profitability and sales growth targets, using an appropriate pricing model for which the assumptions are approved by the directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

## 2. Accounting policies continued

### Share-based payments continued

At each balance sheet date, the cumulative expense (as above) is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, the number of equity instruments that will ultimately vest, or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

### Non-recurring items

Material and non-recurring items of income and expense are separated out in the income statement. Examples of items which may give rise to disclosure as non-recurring items include costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses and asset impairments. Non-recurring costs include the current year expense charged to the income statement in relation to restructuring which has taken place since the year end to derive the underlying profitability of the Group and Company.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

The Company makes use of derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value, i.e. cost. Subsequent to initial recognition derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement as a component of financing income or cost.

The fair value of the derivative financial instrument is the estimated amount that the Company would receive or pay to terminate the instrument at the balance sheet date, taking into account current interest rates and the current creditworthiness of the instrument counterparties.

### Capital

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 17, cash and cash equivalents, and equity attributable to equity holders, comprising issued capital, reserves and retained earnings.

### Borrowings and borrowing costs

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are expensed to the income statement as incurred with the exception of arrangement fees which are deducted from the related liability and are released over the term of the related liability in accordance with IAS 39.

## 3. Critical accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year, are discussed below.

### Impairment of intangible assets

The Company determines whether intangible assets are impaired on at least an annual basis. This requires an estimation of the "value in use" of the cash-generating units to which the intangible value is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details including carrying values are included in Note 11.

### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and other timing differences to the extent that it is more likely than not that taxable profit will be available against which the losses and other timing differences can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### Share-based payment

The estimation of the fair value of share options and other equity instruments at the date of grant requires management to make estimates concerning the number of employees likely to exercise their options together with the expected volatility and dividends payable on the underlying shares.

### Receivables

Debts are recognised to the extent that they are judged recoverable. Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

# Notes to the financial statements continued

## For the year ended 31 March 2010

### 4. Revenue

The whole of the revenue is attributable to the provision of voice and data communication services to both residential and business customers. The directors regard the Company as having a single business segment. All revenue arose within the United Kingdom.

### 5. Operating loss

The operating (loss)/profit is stated after charging:

	2010 £'000	2009 £'000
Amortisation of customer base, billing system and license	1,981	2,126
Depreciation of tangible fixed assets:		
– owned by the Company	102	160
Loss on disposal of tangible fixed assets	—	(1)
Share option expense	24	27
Minimum operating lease payments:		
– land and buildings	153	192
– motor vehicles and other equipment	27	162

The operating loss includes non-recurring costs of £326,292 (2009: £1,314,069), in relation to the costs of restructuring and reorganising existing businesses, which will not recur next year. The bulk of these costs are represented by staff, property and leases which, when stripped out, leave the underlying administrative costs for the business.

Included within the share option expense for the year is £20,109 relating to the warrant instrument issued to Barclays Bank plc: see Note 18.

### 6. Auditors' remuneration

	2010 £'000	2009 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	30	31
Fees payable to the Company's auditor and its associates in respect of:		
Other services relating to taxation	5	5

### 7. Finance costs

	2010 £'000	2009 £'000
On bank loans and overdrafts	895	942
Bank fees	398	299
Finance leases	—	4
Other interest payable	—	49
	1,293	1,294

### 8. Employee costs

Staff costs, including directors' remuneration, were as follows:

	2010 £'000	2009 £'000
Wages and salaries	2,340	2,944
Social security costs	230	327
Share option expense	4	23
Other pension costs	14	18
	2,588	3,312

Employee costs include £287,749 non-recurring costs (Note 5) (2009: £1,016,194).

The average monthly number of employees, including the directors, during the year was as follows:

	2010 Number	2009 Number
Non-executive directors	3	4
Administrative staff	65	74
	68	78

## 8. Employee costs continued

### Key personnel

The directors are considered to be the key management personnel of the Company, having authority and responsibility for planning, directing and controlling the activities of the Company.

## 9. Directors' emoluments

	Salary and fees paid or receivable £	Bonus paid or receivable £	Pension contributions £	Other benefits £	Total 2010 £	Total 2009 £
R Wilson	45,000	—	—	1,368	46,368	61,234
C Fishwick	100,000	—	—	—	100,000	—
D Lukic	15,000	—	—	—	15,000	15,000
M Palios	—	—	—	—	—	11,425
E Williams	—	—	—	—	—	15,000
I Fishwick	207,050	15,000	14,471	3,349	239,870	224,739
A Woodruffe	135,020	15,769	—	1,037	151,826	153,051
J Swaite	70,000	9,600	—	1,737	81,337	19,892
T Holland	—	—	—	—	—	231,239
C Riggs	133,124	4,229	—	—	137,353	138,607
<b>Totals</b>	<b>705,194</b>	<b>44,598</b>	<b>14,471</b>	<b>7,491</b>	<b>771,754</b>	870,187

During the year retirement benefits were accruing to one director (2009: one) in respect of money purchase pension schemes. Termination benefits of £128,786 were paid to a director during the year. The value of the Company's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £14,471 (2009: £13,971).

The share option expense recognised during the year in respect of the directors was £3,980 (2009: £5,000).

### Directors share options

	Option scheme	Options at 1 April 2009	Awarded in year	Options exercised	Options lapsed	Options at 31 March 2010	Option Price	Exercise dates
I Fishwick	EMI	600,000	—	—	—	600,000	30p	28 Dec 10
A Woodruffe	EMI	171,108	—	—	—	171,108	42p	28 Dec 10
A Woodruffe	EMI	171,108	—	—	—	171,108	42p	28 Dec 10
A Woodruffe	EMI	250,000	—	—	—	250,000	42p	1 Aug 15
C Riggs	EMI	592,216	—	—	592,216	—	42p	—
I Fishwick	Unapproved	152,160	—	—	—	152,160	30p	31 Jul 13

Directors interest in the ordinary shares of AdEPT Telecom plc:

	2010 No. of shares	2009 No. of shares
C Fishwick	6,434,400	6,434,400
I Fishwick	1,134,000	1,134,000
R Wilson	788,300	760,800
D Lukic	42,500	32,500
J Swaite	3,656	3,656
A Woodruffe	3,400	3,400

## 10. Income tax expense

	2010 £'000	2009 £'000
<b>Current tax</b>		
UK corporation tax credit on profit for the year	60	(51)
Adjustments in respect of prior periods	(6)	(25)
<b>Total current tax</b>	<b>54</b>	<b>(76)</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	174	52
Adjustments in respect of prior periods	13	(138)
<b>Total deferred tax (see Note 13)</b>	<b>187</b>	<b>(86)</b>
<b>Total income tax (credit)/expense</b>	<b>241</b>	<b>(162)</b>

# Notes to the financial statements continued

## For the year ended 31 March 2010

### 10. Income tax expense continued

#### Factors affecting tax charge for year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 28% (2009: 28%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2010 £'000	2009 £'000
Loss before income tax	(114)	(1,403)
Tax rate	28%	28%
<b>Expected tax credit</b>	<b>(32)</b>	<b>(392)</b>
Expenses not deductible for tax purposes	13	7
Amortisation not deductible for tax purposes	274	353
Share option relief	—	14
Effect of rate change on losses carried back	—	19
Adjustments to tax charge in respect of prior periods	6	(163)
Marginal relief	(20)	—
<b>Actual tax (credit)/expense net</b>	<b>241</b>	<b>(162)</b>

There were no material factors that may affect future tax charges.

### 11. Intangible fixed assets

	License £'000	Computer software £'000	Customer base £'000	Total £'000
<b>Cost</b>				
At 1 April 2008	26	662	26,596	27,284
Additions	—	89	55	144
Disposals	—	—	—	—
At 1 April 2009	26	751	26,651	27,428
Additions	—	95	17	112
Disposals	—	—	—	—
<b>At 31 March 2010</b>	<b>26</b>	<b>846</b>	<b>26,668</b>	<b>27,540</b>
<b>Amortisation</b>				
At 1 April 2008	6	371	4,393	4,770
Charge for the year	3	175	1,948	2,126
Disposals	—	—	—	—
At 1 April 2009	9	546	6,341	6,896
Charge for the year	1	150	1,608	1,759
Impairment charge	—	—	222	222
Disposals	—	—	—	—
<b>At 31 March 2010</b>	<b>10</b>	<b>696</b>	<b>8,171</b>	<b>8,877</b>
<b>Net book value</b>				
<b>At 31 March 2010</b>	<b>16</b>	<b>150</b>	<b>18,497</b>	<b>18,663</b>
At 31 March 2009	17	205	20,310	20,532

Intangible assets are reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The net present value of cash flows for each cash-generating unit is reviewed against the carrying value at the balance sheet date. At the interim reporting date of 30 September 2010 the net present value of future cash flows of certain cash-generating units indicated that they were below the carrying value and the directors considered it appropriate to record an impairment charge of £222,044 and adjust the economic lives of the respective cash-generating units appropriately. The impairment review conducted at 31 March 2010 indicated no further impairment of any of the cash-generating units.

The Company has no internally generated intangible assets.

## 12. Property, plant and equipment

	Short term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 April 2008	7	122	455	584
Additions	—	—	15	15
Disposals	—	—	—	—
At 1 April 2009	7	122	470	599
Additions	—	—	39	39
Disposals	—	—	—	—
<b>At 31 March 2010</b>	<b>7</b>	<b>122</b>	<b>509</b>	<b>638</b>
<b>Depreciation</b>				
At 1 April 2008	7	54	243	304
Charge for the year	—	30	130	160
Disposals	—	—	—	—
At 1 April 2009	7	84	373	464
Charge for the year	—	25	77	102
Disposals	—	—	—	—
<b>At 31 March 2009</b>	<b>7</b>	<b>109</b>	<b>450</b>	<b>566</b>
<b>Net book value</b>				
<b>At 31 March 2010</b>	<b>—</b>	<b>13</b>	<b>59</b>	<b>72</b>
At 31 March 2009	—	38	97	135

## 13. Deferred taxation

	2010 £'000	2009 £'000
At 1 April 2009	799	713
Income statement charge	(174)	86
Adjustments in respect of prior periods	(13)	—
<b>At 31 March 2010</b>	<b>612</b>	<b>799</b>

The deferred tax asset is made up as follows:

	2010 £'000	2009 £'000
Capital allowances	118	121
Tax losses	494	678
	<b>612</b>	<b>799</b>

The deferred tax asset has been recognised as the Company continues to generate taxable profits against which the asset continues to reverse.

# Notes to the financial statements continued

For the year ended 31 March 2010

## 14. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	2,446	2,628
Other receivables	8	8
Prepayments and accrued income	447	582
	<b>2,901</b>	<b>3,218</b>

As at 31 March 2010, trade receivables of £283,280 (2009: £560,629) were impaired and fully provided for. The ageing of the trade receivables which are past due and not impaired are as follows:

	2010 £'000	2009 £'000
31–60 days	54	68
61–90 days	9	1
Over 90 days	83	34
	<b>146</b>	<b>103</b>

Movement of the Company provision for impairment of trade receivables are as follows:

	£'000
At 1 April 2008	380
Receivables written off during the year as uncollectable	(472)
Unused amounts reversed	(35)
Provision for receivables impairment for the year	688
At 1 April 2009	561
Receivables written off during the year as uncollectable	(521)
Unused amounts reversed	—
Provision for receivables impairment for the year	243
<b>At 31 March 2010</b>	<b>283</b>

The creation and release of a provision for impaired receivables has been included in administration expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering cash. Management regularly review the outstanding receivables and do not consider that any further impairment is required. The other assets classes within trade and other receivables do not contain impaired assets.

## 15. Trade and other payables

	2010 £'000	2009 £'000
Trade payables	2,685	3,292
Other taxes and social security costs	411	411
Finance lease obligations	—	6
Other payables	121	150
Accruals and deferred income	1,485	1,429
	<b>4,702</b>	<b>5,288</b>

## 16. Long term borrowings

	2010 £'000	2009 £'000
Between one and two years	8,622	1,474
Between two and three years	—	1,116
More than three years	—	7,513
Bank loans	<b>8,622</b>	<b>10,103</b>

The bank loan is secured by a debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery. Details of the interest rates applicable to the loans are included in Note 27.

Included within bank loans are arrangement fees amounting to £177,480 (2009: £278,897) which are being released over the term of the loan in accordance with IAS 39.

In addition an exit fee has also been included within this balance. Under the terms of the loan agreement an amount of between £587,500 and £87,500 is due to be paid on the settlement of the loan. The amount payable depends upon future targets based upon the ratio of Net Debt to EBITDA. At the balance sheet date the directors expect the maximum amount will become payable based upon the Company's forecasts. The amount is being charged to finance charges over the life of the loan.

## 17. Share capital

	2010 £'000	2009 £'000
<b>Authorised</b>		
65,000,000 ordinary shares of 10p each	6,500	6,500
<b>Allotted, called up and fully paid</b>		
21,067,443 ordinary shares of 10p each	2,107	2,107

### Share options

At 31 March 2010, the following options and warrants over the shares of AdEPT were in issue:

	2010 Number of shares under option	2010 Weighted average exercise price	2009 Number of shares under option	2009 Weighted average exercise price
<b>Outstanding at 1 April</b>	4,151,259	52p	2,313,046	75p
Granted during the year	96,431	11p	1,858,813	23p
Forfeited during the year	(1,210,257)	44p	(20,600)	140p
Exercised during the year	—	—	—	—
<b>Outstanding at 31 March</b>	3,037,433	42p	4,151,259	52p

The weighted average fair values have been determined using the Black Scholes-Merton Pricing Model with the following assumptions and inputs:

	2010	2009
Risk free interest rate	1.95–4.13%	2.71–4.13%
Expected volatility	41–66%	35–83%
Expected option life (years)	1.25–5.7	1.25–5.7
Expected dividend yield	0%	0%
Weighted average share price	27p	43p
Weighted average exercise price	42p	52p
Weighted average fair value of options granted	6p	5p

The expected average volatility was determined by reviewing the last 100 historical fluctuations in the share price prior to the grant date of each share instrument. An expected take up of 100% has been applied to each share instrument. Expected dividend yield is estimated at 0%, this estimate of Nil is per the requirement of IFRS 2 where a Company such as AdEPT has no current dividend history, it does not bear any relation to the actual dividend policy of AdEPT Telecom plc.

	Exercise price (p)	Expected option life (years)	31 March 2010	31 March 2009
31 July 2003	29	5.7	152,160	152,160
28 December 2003	29	5.3	600,000	600,000
29 August 2004	42	4.6	171,108	342,216
6 June 2005	42	3.6–4.8	171,108	342,216
13 December 2005	140	2.3–4.1	—	342,216
14 February 2006	140	3.1–4.1	421,349	421,349
15 February 2006	140	1.25–2.25	66,464	86,761
9 May 2006	199	1.25–2.25	—	5,528
1 August 2008	42	3.0	250,000	750,000
21 January 2009	12	3.0	1,205,244	1,108,813
			3,037,433	4,151,259

During the year ended 31 March 2009 a warrant was issued to Barclays Bank plc over 5% of the diluted share capital of the Company. As at 31 March 2010 this entitled the holder to 1,205,244 shares. The weighted average fair value of this equity instrument of £60,327 has been determined using the Black Scholes-Merton Pricing Model applying the same assumptions as those applied to the other equity instruments issued during the period due to Barclays Bank plc being unable to provide a sufficiently reliable estimate of the value of services provided in relation to these warrants.

The mid-market price of the ordinary shares on 31 March 2010 was 16p and the range during the year was 12p.

There have been no transactions with equity holders or dividends during the current or previous year.

# Notes to the financial statements continued

## For the year ended 31 March 2010

### 18. Pension commitments

At 31 March 2010 there were no pension commitments (2009: £Nil).

### 19. Operating lease commitments

At 31 March 2010 the Company had lease commitments as follows:

	Land and buildings		Other	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Within one year	153	147	12	37
Between two and five years	331	484	11	7
More than five years	—	—	—	—

### Land and buildings

The Company leases its offices under non-cancellable operating lease agreements. There is no material contingent rent payable. The lease agreements do not offer security of tenure. The lease terms are for approximately five years.

### Other

The Company leases various office equipment and motor vehicles under non-cancellable operating lease agreements. The lease terms are either two or three years.

The lease expenditure charged to the income statement during the year is disclosed in Note 5.

### 20. Related party transactions

During the year CKR Holdings Ltd, a company controlled by Chris Fishwick, a director, provided consultancy services to the Company in the normal course of business and at an arm's length basis with a total value of £100,000 (2009: £14,215). There was no balance owing to CKR Holdings at the end of the year (2009: £Nil).

### 21. Capital commitments

At 31 March 2010 there were capital commitments of £Nil (2009: £65,000).

### 22. Earnings per share

Earnings per share is calculated on the basis of a loss of £354,749 (2009: loss of £1,240,975) divided by the weighted average number of shares in issue for the year of 21,067,443 (2009: 21,067,443). The diluted earnings per share is calculated on the assumption that the unapproved and EMI share options as disclosed in Note 17 to the financial statements are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 25,218,702 (2009: 25,218,702).

An adjusted earnings per share is calculated by adding back amortisation of intangible assets and non-recurring costs to retained earnings, giving £2,306,862 (2009: £3,439,874). This is divided by the same weighted average number of shares as above.

	2010 £'000	2009 £'000
<b>Earnings for the purposes of basic and diluted earnings per share</b>		
Loss for the period attributable to equity holders	(355)	(1,241)
Amortisation	1,981	2,126
Non-recurring costs	326	1,314
Adjusted profit attributable to equity holders, adding back amortisation and non-recurring costs	1,952	2,199
<b>Number of shares</b>		
Weighted average number of shares used for earnings per share	21,067,443	21,067,443
Dilutive effect of share plans	3,037,433	4,151,259
Diluted weighted average number of shares used to calculate fully diluted earnings per share	24,104,876	25,218,702
<b>Earnings per share</b>		
Basic earnings per share	(1.68)p	(5.89)p
Fully diluted earnings per share	n/a	n/a
<b>Adjusted earnings per share, after adding back amortisation and non-recurring costs</b>		
Adjusted basic earnings per share	9.27p	10.44p
Adjusted fully diluted earnings per share	8.10p	8.72p

Earnings per share is calculated by dividing the retained earnings attributable to the equity holders by the weighted average number of ordinary shares in issue.

Adjusted earnings per share is calculated by dividing the retained earnings attributable to the equity holders (after adding back amortisation and non-recurring costs) by the weighted average number of ordinary shares in issue.

The adjustment for the dilutive effect of share options has not been reflected in the calculation of the diluted loss per share as the effect would be anti-dilutive, therefore diluted and basic earnings per share are equal.

### 23. Financial instruments

Set out below are the Company's financial instruments. The directors consider there to be no difference between the carrying value and fair value of the Company's financial instruments.

	2010 £'000	2009 £'000
<b>Financial assets</b>		
Cash	885	733
Trade and other receivables	2,446	2,636
<b>Financial liabilities</b>		
Interest bearing loans and borrowings:		
Obligations under finance lease contracts	—	6
Floating rate borrowings	—	4,455
Fixed rate borrowings	10,099	7,400
	<b>10,099</b>	<b>11,861</b>
<b>Amounts due for settlement:</b>		
Within twelve months	1,477	1,579
After twelve months	8,622	10,282
	<b>10,099</b>	<b>11,861</b>

The Facility A term loan bears interest at 3.5% over LIBOR and is repayable by quarterly instalments of £394,650 with the final repayment of £5.41m due on 31 December 2011. At the year end the amount outstanding in respect of this facility was £7.6m.

The Alternative Structured Facility bears cash interest at a rate at 5.5% over LIBOR. Payment In Kind interest is accruing on the Alternative Structured Facility at a rate of 2.0% per annum which is payable on the final repayment date of 31 December 2011. At the year end the amount outstanding in respect of the Alternative Structured Facility was £2.5m.

The fixed interest rate liabilities also include amounts payable on finance lease liabilities. The weighted average interest rate of these liabilities was 8.0% and the weighted average period for which the interest rates are fixed was 60 months.

The financial assets of the Company are surplus funds, which are offset against borrowings under the facility, and there is no separate interest rate exposure.

Barclays Bank plc has a cross guarantee and debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery.

The bank also holds a charge over the life assurance policies of Ian Fishwick and Amanda Woodruffe, directors of the Company, for £1,500,000 and £250,000 respectively.

#### Obligations under finance leases

	2010 £'000	2009 £'000
Finance lease liabilities – minimum lease payments:		
No later than one year	—	6
Later than one year and no later than five years	—	—
Later than five years	—	—
Future finance charges on finance leases	—	—
<b>Present value of finance lease liabilities</b>	<b>—</b>	<b>6</b>
The present value of finance lease liabilities is as follows:		
No later than one year	—	6
Later than one year and no later than five years	—	—
Later than five years	—	—
	<b>—</b>	<b>6</b>

The Company had a certain amount of its property, plant and equipment under finance lease. For the year ended 31 March 2010 the average effective borrowing rate was 8.0%. Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling. Finance lease liabilities are secured upon the underlying assets.

#### Sensitivity analysis

At 31 March 2010 it is estimated that a movement of 1% in interest rates would impact the Company's profit before tax by approximately £120,000. Given the interest rate hedge in place, this impact on profit would be reduced should interest rates rise above 3.77%.

#### Interest rate risk

The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Company's policy is to keep at least 75% of its borrowings at fixed rates of interest. At 31 March 2010, after taking into account the effect of interest rate management, 100% of the Company's borrowings are at a fixed rate of interest (2009: 62.4%).

# Notes to the financial statements continued

For the year ended 31 March 2010

## 23. Financial instruments continued

### Credit risk

Credit risk associated with cash balances and derivative financial instruments is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Company's associated credit risk is deemed to be limited.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March 2010 was £3,339,297 (2009: £3,369,207).

### Loans and receivables

	2010 £'000	2009 £'000
Trade receivables	2,446	2,628
Other receivables	8	8
Cash and cash equivalents	885	733
	<b>3,339</b>	<b>3,369</b>

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and this policy has been implemented by requiring staff to carry out appropriate credit checks on customers before sales commence.

Trade receivables consist of a large number of customers, spread across diverse industries across the United Kingdom. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Company does not have any significant credit risk exposure to any single counterparty or any Company of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are connected parties.

### Liquidity risk

The Company has an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity risk management requirements. The Company manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities through cash flow forecasting, acquisition planning and monitoring working capital and capital expenditure requirements on an ongoing basis.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet dated to the contractual maturity date. The amounts disclosed in the table are the contracted undiscounted cash flows. Discounting is not required as this has no material effect on the financial statements.

### Amortised cost

Year ended 31 March 2010	Within 1 year	1–2 years	2–5 years	More than 5 years
	£'000	£'000	£'000	£'000
<b>Borrowings</b>	1,477	8,622	—	—
<b>Finance leases</b>	—	—	—	—
<b>Trade and other payables</b>	2,807	—	—	—
	<b>4,284</b>	<b>8,622</b>	<b>—</b>	<b>—</b>
Year ended 31 March 2009	Within 1 year	1–2 years	2–5 years	More than 5 years
	£'000	£'000	£'000	£'000
Borrowings	1,474	1,474	8,629	—
Finance leases	6	—	—	—
Trade and other payables	3,442	—	—	—
	4,922	1,474	8,629	—

### Currency risk

The Company's operations are handled entirely in sterling.



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