



AdEPT Telecom plc annual report and accounts 2009

faces not numbers



corporate statement

“One day we will be widely acknowledged as the most professional Telecom Reseller in the United Kingdom.”

AdEPT Telecom plc 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.

As at March 2009, 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.

AdEPT Telecom is listed on the London Stock Exchange (Ticker: ADT). For further information please visit: www.adept-telecom.co.uk

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highlights

financial highlights

- Revenue **increasing by 21% to £28.6m** driven by the acquisitions made during the previous period
- EBITDA excluding non-recurring costs **increasing by 6% to £3.5m** (2008: £3.3m)
- **Excellent cash generation** with free cash flow of £2.1m (2008: £0.8m)
- 103% of EBITA (£2.0m) converted into **cash generated from operating activities (£2.1m)** (2008: 103%)
- **Net debt reduction of £0.5m** year-on-year, despite significant non-recurring costs of £1.3m
- **Adjusted earnings per share**, after adding back amortisation and non-recurring costs of 10.44p per share (2008: 11.43p)

+21%

Revenue increased to £28.6m driven by prior period acquisitions

+45%

Line rental revenue up 45% at £11.3m

+6%

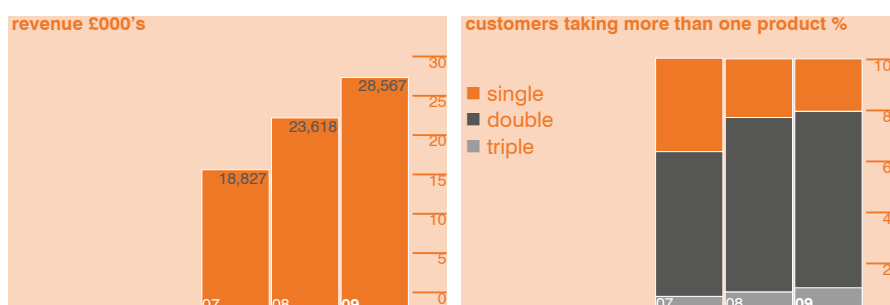
EBITDA excluding non-recurring costs increasing by 6% to £3.5m

103%

EBITA converted into cash generated from operating activities

operational highlights

- Achieved a **higher mix of business customers** with total business revenue 95% of the total this year (2008: 93%), increasing stability of overall customer base
- **Excellent progress in increasing revenue** from fixed monthly charges, with line rental revenues at March 2009 up 45% at £11.3m (2008: £7.8m)
- **Line rental and data products represented** 44% of total revenues at March 2009 (2008: 35%)
- **Overhead costs (excluding commissions and one-off restructuring costs) decreased** to 17% of revenue (2008: 18%)
- **81% of revenue generated** from customers taking more than one product or service (2008: 78%)
- **Significant improvement to credit collection** processes and debt management with year end debtor days of 34 (2008: 53 days)



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 approximately 21,000 business and 10,000 residential customers across the UK. AdEPT employs 65 members of staff at its offices in Tunbridge Wells, Kent.

AdEPT operates a highly efficient, low-cost operating model for the SME ('Small and Medium Enterprises') segment of the business telecoms market whilst providing award-winning customer service to its customer base.

The Company's primary focus is on the UK SME market, which at 31 March 2009 comprised approximately 95% of the Company's turnover.



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 10 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

AdEPT understands the important role of mobile telephony in today's business communication.

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

AdEPT provides impartial price comparison across all of the mobile networks based on the specific requirements of the customer.



Broadband

AdEPT's next generation business grade broadband packages offer great value.

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 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

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.



chairman's statement



Roger Wilson – Non-executive Chairman

Summary of chairman's statement

Growing line rental revenues has been a key objective and **we are delighted to report line rental revenues increased 45%** to £11.3m, compared to £7.8m in the prior year.

The business focus for this coming year will remain on **developing organic sales, improving customer retention, generating cash and paying down debt.**

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

For the year ended 31 March 2009 AdEPT Telecom plc ("AdEPT" or the "Company") delivered another strong trading performance.

Review of operations

The business was established to be a consolidator of the highly fragmented UK fixed line reseller sector which is estimated to include approximately 700, mostly smaller telecom businesses. To date AdEPT has acquired 16 competitors and/or their customer bases.

A critical part of the acquisition strategy is the ability to integrate the acquired customer bases into AdEPT's systems within six weeks thus achieving economies of scale and cost efficiencies. However, this route to growth is increasingly being complemented by organic sales which have grown significantly in the past two years.



Achievements

Our retention and customer service teams have reduced customer churn substantially in the year. Our indirect sales channel of independent business partners continues to grow with over 60 partners active in bringing us new customers in the year. We have seen an increase in the size of new customers with important wins such as eleven more of the regional Probation Services (we now have 20 in total, representing over half of the Probation Services in the UK), the Italian restaurant chain Carluccio's and a 3000+ site data solution for the national gaming machine operator Gamestec.

Growing line rental revenues has been a key objective and we are delighted to report line rental revenues increased 45% to £11.3m compared to £7.8m in the prior year. Our revenue is becoming more stable as we reduce our reliance on variable monthly call charges, replacing them with fixed monthly line rentals.

Employees

As a Company we are immensely proud of the track record we have created in a relatively short period of time. Our success is a result of the efforts of all our employees and on behalf of the Board I would like to take this opportunity to thank them for all 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

During the year AdEPT launched a new shareholder benefits scheme, which is available to all shareholders owning a minimum of 1,000 shares. Shareholders who register with the scheme are entitled to free residential line rental worth approximately £120 per annum for as long as they remain eligible shareholders.

Outlook

The past year has seen an almost unprecedented turmoil in the financial and credit markets, which has had an inevitable knock-on effect into the real world. However, management took early action at the half-year point to reduce overheads and tighten credit management. This has enabled the Company to increase its EBITDA levels despite the economic downturn – no mean achievement under the circumstances. Management also took steps at the end of 2008 to renegotiate and extend our banking facilities for a three year term, giving us certainty of funding going forward. The business focus for this coming year will remain on developing organic sales, improving customer retention, generating cash and paying down debt. 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.

We need to guard against complacency given the continued uncertainty in the economic outlook, but I am confident that the business is in a much stronger position than before with a more stable customer base, a higher proportion of fixed monthly revenues and increased focus on customers paying by direct debit. We will also continue to focus very closely on our debtors to ensure payment terms do not get extended.

A handwritten signature in black ink, appearing to read 'Roger Wilson'.

Roger Wilson
Non-executive Chairman
14 July 2009

financial and business review



John Swaite – Finance director

Summary of business review

Average customer monthly spend increased year-on-year by 3.8% to £72.49 in March 2009 reflecting **the Group's success in gaining contracts with higher spending customers.**

Reported EBITA turned into net cash from operating activities is 103% (2008: 103%).

Revenue

Group revenue increased by 21% to £28.6m (2008: £23.6m) with growth primarily derived from the full twelve month contribution from the two acquisitions completed during 2008. The proportion of revenue derived from business customers has increased to 95% (2008: 92%).

The proportion of revenue, which is fixed monthly values, represent 44% of total revenue for the year ended March 2009 (2008: 34%) following the continued focus on multi-product sales (calls and line rental) and the introduction of a broad range of data connectivity products in 2008. The proportion of revenue generated from customers taking more than one product or service has increased to 81% for the year ended March 2009 (2008: 78%) which should provide a more stable future revenue stream.

Average customer monthly spend increased year-on-year by 3.8% to £72.49 in March 2009 reflecting the Group's success in gaining contracts with higher spending customers and an increasing proportion of higher spending business customers.



Summary of three year financial performance:

	Year ending March				
	2009 £'000	Year-on-Year Growth %	2008 £'000	Year-on-Year Growth %	2007 £'000
Revenue	28,567	21%	23,618	25%	18,827
Gross margin	10,341	18%	8,754	20%	7,291
EBITDA*	3,490	6%	3,280	32%	2,490
Net debt	10,843		11,295		2,910

* excluding non-recurring costs

Gross margin

Overall Group gross margin has increased by 18% year-on-year from £8.75m to £10.34m. Margins for calls, lines, data connectivity and broadband have remained broadly stable despite pressures arising from a highly competitive market, however, the net impact on overall margin arising from the changing sales mix is a decrease to 36.2% (2008: 37.1%) as lower margin line rental, data connectivity and broadband revenue is an increased proportion of the total.

Administration costs

Administration costs (excluding depreciation, amortisation and non-recurring costs) increased to £6.9m which is 24% of revenue (2008: 23%). Administration costs include commissions payable to business partners, the proportion of which increased significantly with the Telecom Direct acquisition. Excluding partner commissions, underlying administration costs have reduced by 1% in the year, from 18% to 17% of revenue. We believe that we remain one of the lowest cost operators in the industry.

The non-recurring costs are those incurred in the Telecom Direct division and restructuring costs 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. The close-out of the Telecom Direct division was completed during the year.

EBITDA

Excluding non-recurring costs EBITDA has increased by £0.2m during the year. Revenue growth has been absorbed in part by the margin reduction arising from changes in the sales mix towards lower margin revenue streams combined with the full year cost of partner commissions associated with the prior period acquisitions.

Earnings per share

Adjusted earnings per share, based on retained earnings adding back amortisation and non-recurring costs (see note 5), has reduced by 9% to 10.44p per share (2008: 11.43p). This arises largely due to lower EBITA margin, driven by gross margin movement from changes to the sales mix, combined with a higher interest cost arising from a full year's interest charge for the debt increase associated with the Telecom Direct acquisition.

Cash flow

The Group benefits from an excellent operating cash model, with EBITA turning into cash. Reported EBITA turned into net cash from operating activities is 103% (2008: 103%). Working capital movement during the year was neutral. The Group has focussed on managing its credit risk in the current economic climate and with the introduction of new processes, collections of trade receivables were significantly improved during the year with a reduction of customer collection periods to 34 days (2008: 53 days), resulting in an absolute reduction of £0.8m to trade receivables being achieved.

After servicing its debt the Group achieved an increase in cash and cash equivalents of £0.6m 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 0.1% of revenue (2008: 0.8%). Expenditure on intangible assets was £0.1m (2008: £7.4m), which is significantly lower than the prior year comparative which includes the investment in the two customer bases acquired during 2008.

103%
cash generated from EBITA

financial and business review continued

Key Performance Indicators (as at 31 March):

	Residential		Business		Total	
	2009	2008	2009	2008	2009	2008
Revenue by product						
Line rental	1.3%	1.1%	37.7%	32.1%	39.0%	33.2%
Calls	4.0%	6.9%	53.4%	56.3%	57.4%	63.2%
Broadband and data	0.0%	0.0%	2.2%	1.6%	2.2%	1.6%
Mobile	0.0%	0.0%	0.6%	0.5%	0.6%	0.5%
Other	0.0%	0.0%	0.8%	1.5%	1.5%	1.5%
Total	5.3%	8.0%	94.7%	92.0%	100.0%	100.0%
Average monthly spend per customer (ex VAT)	£11.31	£12.93	£101.47	£95.23	£72.42	£69.76

Note: analysis only includes those customers who received a bill and customers are only billed if the bill exceeds £2.99.

Net debt

Net debt, which comprises cash balances and bank borrowings, improved by £0.5m to £10.8m (2008: £11.3m). This reduction to net debt was achieved through strong cash flow and despite significant non-recurring costs of £1.3m during the year, from the close-out of Telecom Direct Limited, restructuring costs and the bank arrangement fees in relation to the new facilities.

The Group continues to manage its exposure to interest rate risks arising from financing activities. After the year end the Group entered an agreement to manage the interest rate risk on 100% of the Group's fixed term debts through to December 2011 at a more favourable rate than that which it replaced.

Key performance indicators (KPIs)

The KPIs outlined on page 8 are intended to provide useful information when interpreting the accounts. The KPIs outline the Group's position as at the final month of the year, March, which provides an indication of the starting point for the following financial year.

Resilient business model

Despite the unprecedented conditions in the UK economy the Board believes that AdEPT has a number of resilient features and 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 provide 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 11% of revenues;
- trade suppliers and partners are all top tier suppliers, providing confidence in the continuity and reliability of service to customers;
- 65% of the Group's customers pay by monthly direct debit, reducing the Group's credit risk; and
- the Group has agreed banking facilities through to December 2011. With the elimination of the excess costs associated with the Telecom Direct acquisition, the reorganisation and the level of cash generation forecast, the Board expects the Group's net borrowing position to improve significantly over the next twelve months.



John Swaite
Finance director
14 July 2009

£1.8m
free cash flow generated from operations

board of directors

Roger Wilson

Non-executive Chairman (BA Hons, DMS)

Roger has worked in the telecom industry for the past 17 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.

Dusan Lukic

Non-executive director

Dusan (also known as Dusko) has worked for 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.

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.

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.

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.

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.

directors and advisors

Directors

Roger Wilson
Ian Fishwick
Tim Holland (resigned 9 January 2009)
Amanda Woodruffe
Christopher Riggs (resigned 7 May 2009)
John Swaite (appointed 9 January 2009)
Dusko Lukic
Chris Fishwick (appointed 27 March 2009)
Mark Palios (resigned 9 January 2009)
Edward Williams (resigned 3 April 2009)

Secretary

Maclay Murray & Spens LLP

Company number

4682431

Registered office

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London EC2Y 5AB

Contact details

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Email: business.services@adept-telecom.co.uk
Website: 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
30 Old Broad Street
London EC2N 1HT

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 2009

The directors present their report and the financial statements for the year ended 31 March 2009.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group at the end of the period and the profit or loss of the Group for the period. In preparing the financial statements directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

They are further responsible for ensuring that the directors' report 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.

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 Group 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 pages 4 and 5.

Results and dividends

The loss for the year, after taxation, amounted to £1,240,975 (2008: £842,743).

No dividend (2008: £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 Group made charitable donations of £2,359 (2008: £1,205). No political donations were made during the current or previous financial year.

Company's policy for payment of creditors

The Group does not follow any code or statement on payment practice, but the policy of the Group is to abide by such payment terms as are agreed with suppliers within the terms of supply. By 31 March 2009 there were 51 days' purchases outstanding (2008: 55 days), calculated on a ratio of trade creditors to total purchases.

Substantial interests

At 31 March 2009 there were the following substantial interests (3% or more) in the Company's ordinary share capital.

	% Holdings in ordinary share capital 31 March 2009
Croyde Limited	13.6
Invision III Limited Partnership	10.5
Codium Limited	9.3
Richard Blakesley	6.6
Invision Capital III Limited Partnership	5.5
Oathall Plc	5.5
Ian Fishwick	5.4
Brewin Dolphin	5.3
New Star Asset Management	4.7
Octopus Investments	4.5
Roger Wilson	3.4
Patricia Wilson	3.4
Joseph Banks	3.3
Bittium Limited	2.2

Substantial interests continued

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 Group's long-term performance and could cause actual results to differ materially from expected results.

Liquidity risk

The Group 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 Group's forecast working capital requirements.

Credit risk

The Group 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 Group will suffer adverse consequences. To manage this, the Group continually monitors credit terms to ensure that no single customer is granted credit inappropriate to its credit risk. Additionally, 63.8% 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 just over 11% of revenues.

Competitor risk

The Group 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 developments 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 Group therefore monitors market prices on an ongoing basis.

Acquisition integration execution

The Group 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 Group mitigates this risk by careful planning and rigorous due diligence.

Employee involvement

The Group 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 Group has in place an indemnity insurance policy for the benefit of the senior management and employees at a cost of £8,400 (2008: £8,400).

Disabled employees

The Group 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 reappointment in accordance with section 489 of the Companies Act 2006.

By order of the Board.



Ian Fishwick
Managing director
14 July 2009

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 four 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 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 Group 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 Group's website at 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 Group'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 Group'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 Group.



Ian Fishwick
Managing director
14 July 2009

independent auditors' report to the shareholders of AdEPT Telecom plc

We have audited the Group and parent Company financial statements (the "financial statements") of AdEPT Telecom plc for the year ended 31 March 2009 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and Company statement of changes in equity, the consolidated and Company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's 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

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

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

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

We read other information contained in the annual report and consider whether it is consistent with the Group financial statements. This other information comprises only the directors' report, the chairman's statement, the financial and business review and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

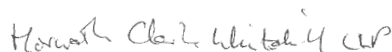
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment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

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

Unqualified opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2009 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 March 2009; and
- the information given in the directors' report is consistent with the Group financial statements.



Horwath Clark Whitehill LLP

Chartered accountants and
registered auditors

Tunbridge Wells

14 July 2009

consolidated income statement for the year ended 31 March 2009

	Note	2009 £'000	2008 £'000
Revenue	4	28,567	23,618
Cost of sales		(18,226)	(14,864)
Gross profit		10,341	8,754
Administrative expenses		(10,451)	(8,843)
Operating loss		(110)	(89)
Total operating profit – analysed:			
Operating profit before non-recurring costs, depreciation and amortisation		3,490	3,280
Non-recurring costs		(1,314)	(1,381)
Depreciation of tangible fixed assets		(160)	(119)
Amortisation of intangible fixed assets		(2,126)	(1,869)
Total operating loss		(110)	(89)
Finance costs	7	(1,294)	(653)
Finance income		1	4
Loss before income tax		(1,403)	(738)
Income tax credit/(expense)	10	162	(105)
Retained earnings (accumulated losses)	19	(1,241)	(843)
Attributable to:			
Equity holders of the parent		(1,241)	(843)
Earnings per share:			
Basic earnings per share	26	(5.89)p	(4.00)p
Diluted earnings per share	26	(5.89)p	(4.00)p

All amounts relate to continuing operations. The notes on pages 20 to 32 form part of these financial statements.

consolidated and company balance sheet as at 31 March 2009

	Note	Group		Company	
		31 March 2009 £'000	31 March 2008 £'000	31 March 2009 £'000	31 March 2008 £'000
Assets					
Non-current assets					
Intangible assets	11	20,532	22,514	20,532	22,514
Property, plant and equipment	12	135	280	135	280
Deferred income tax	13	799	713	799	713
		21,466	23,507	21,466	23,507
Current assets					
Trade and other receivables	15	3,218	4,304	3,218	4,304
Income tax receivable		50	—	50	—
Cash and cash equivalents		733	155	733	155
		4,001	4,459	4,001	4,459
Total assets		25,467	27,966	25,467	27,966
Current liabilities					
Trade and other payables	16	5,288	6,597	5,288	6,597
Income tax		—	103	—	103
Short-term borrowings		1,474	923	1,474	923
		6,762	7,623	6,762	7,623
Non-current liabilities					
Long-term borrowings	17	10,103	10,527	10,103	10,527
Total liabilities		16,865	18,150	16,865	18,150
Net assets		8,602	9,816	8,602	9,816
Equity attributable to equity holders of the parent					
Share capital	18	2,107	2,107	2,107	2,107
Share premium	19	7,965	7,965	7,965	7,965
Retained earnings	19	(1,470)	(256)	(1,470)	(256)
Total equity		8,602	9,816	8,602	9,816

The financial statements were approved and authorised for issue by the Board on 14 July 2009 and signed on its behalf.



Ian Fishwick
Managing director

The notes on pages 20 to 32 form part of these financial statements.

group and company statement of changes in equity

for the year ended 31 March 2009

	Attributable to equity holders of the parent			
	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2007	2,107	7,965	552	10,624
Loss for the year	—	—	(843)	(843)
Share-based payments	—	—	35	35
Net income/(expense) recognised directly in equity	2,107	7,965	(256)	9,816
Equity at 31 March 2008	2,107	7,965	(256)	9,816
Loss for the year	—	—	(1,241)	(1,241)
Share-based payments	—	—	27	27
Net income/(expense) recognised directly in equity	2,107	7,965	(1,470)	8,602
Equity at 31 March 2009	2,107	7,965	(1,470)	8,602

The notes on pages 20 to 32 form part of these financial statements.

consolidated and company cash flow statement for the year ended 31 March 2009

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Cash flows from operating activities				
Loss before income tax	(1,403)	(738)	(1,403)	(738)
Depreciation and amortisation	2,286	1,989	2,286	1,989
Profit on sale of property, plant and equipment	(1)	—	(1)	—
Profit held in trust	—	(31)	—	(31)
Share-based payments	27	35	27	35
Net finance costs	1,293	644	1,293	644
Operating cash flows before movements in working capital	2,202	1,899	2,202	1,899
Decrease in trade and other receivables	787	79	787	79
Decrease in trade and other payables	(920)	(138)	(920)	(138)
Cash generated from operations	2,069	1,840	2,069	1,840
Income taxes paid	(79)	(709)	(79)	(709)
Net cash from operating activities	1,990	1,131	1,990	1,131
Cash flows from investing activities				
Interest received	1	4	1	4
Interest paid	(995)	(665)	(995)	(665)
Acquisition of subsidiary, net of cash acquired	—	(5,144)	—	(5,144)
Purchase of intangible assets	(762)	(2,009)	(762)	(2,009)
Purchase of property, plant and equipment	(14)	(196)	(14)	(196)
Net cash used in investing activities	(1,770)	(8,010)	(1,770)	(8,010)
Cash flows from financing activities				
Repayment of finance leases	(47)	(6)	(47)	(6)
Repayment of borrowings	(1,350)	(1,500)	(1,350)	(1,500)
Increase of bank loan	1,755	7,200	1,755	7,200
Net cash from financing activities	358	5,694	358	5,694
Net increase/(decrease) in cash and cash equivalents	578	(1,185)	578	(1,185)
Cash and cash equivalents at beginning of year	155	1,340	155	1,340
Cash and cash equivalents at end of year	733	155	733	155
Cash and cash equivalents:				
Cash at bank and in hand	733	155	733	155
Bank overdrafts	—	—	—	—
Cash and cash equivalents	733	155	733	155

The notes on pages 20 to 32 form part of these financial statements.

notes to the financial statements for the year ended 31 March 2009

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 Group 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 the Group's ultimate parent Company and is incorporated and domiciled in the UK. The Company's shares are listed on AIM of the London Stock Exchange.

The Group's statutory financial statements for the year ended 31 March 2008, prepared under International Financial Reporting Standards, have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2. Accounting policies

Basis of preparation of financial statements

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

The date of transition to IFRS was 1 April 2007 (transition date).

The Company has taken advantage of s230 CA 1985 to not present a Company income statement. The loss for the year dealt with in the holding Company, which has been approved by the Board, was £1,462,216 (2008: £842,743).

Certain new standards, amendments and interpretations of existing standards that have been published and which are effective for the Group's accounting periods beginning on or after 1 July 2008 and which are applicable to the Group, but which have not been adopted early are:

- IAS 1 Presentation of Financial Statements (revised 2007)
- IFRS 8 Operating segments: Disclosure
- IAS 23 Borrowing costs (revised)
- IFRS 3 Business combinations
- IAS 39 Financial instruments: Recognition and measurement (amendment)
- IFRS 7 Improving disclosures about financial instruments (amendments and disclosures)

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.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 March 2009. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Company and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets (including intangibles) of the acquired subsidiary at the date of acquisition.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group 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 of both invoiced and un-invoiced amounts for performance of network services supplied by the Group 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 permanent impairment.

2. Accounting policies continued

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 Group 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 Group.

Intangible fixed assets continue to be subject to an impairment review on the first anniversary after acquisition, when appropriate lives are selected.

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 12 years (2008: 12 years).

Other intangible assets

Also included within intangible fixed assets are the development costs of the Group'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	– 3 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	– 5 years straight line
Fixtures and fittings	– 3 years straight line
Office equipment	– 3 years straight line
Computer software	– 3 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 Group 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.

The hive up of intangible assets between Group companies is not considered a business combination under IFRS 3 (Business Combinations) and therefore deferred income tax is not provided on the intangible customer base asset thus acquired by AdEPT Telecom plc.

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.

notes to the financial statements continued

for the year ended 31 March 2009

2. Accounting policies continued

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.

At each balance sheet date, the cumulative expense 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 Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group 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 Group 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 Group 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 Group consists of debt, which includes the borrowings disclosed in Note 17, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 18 and 19.

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 Group determines whether goodwill is impaired at least on 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.

3. Critical accounting estimates and judgements continued

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.

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 Group as having a single business segment. All revenue arose within the United Kingdom.

5. Operating loss

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

	2009 £'000	2008 £'000
Amortisation of customer base, billing system and license	2,126	1,869
Depreciation of tangible fixed assets:		
– owned by the Group	160	119
Loss on disposal of tangible fixed assets	(1)	—
Share option expense	27	35
Minimum operating lease payments – land and buildings	192	342
– motor vehicles and other equipment	162	102

The operating loss includes non-recurring costs of £1,314,069 (2008: £1,481,827), 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 this figure, is amortisation of £Nil (2008: £100,889), relating to the billing system for that division.

Included within the share option expense for the year is £3,498 relating to the warrant instrument issued to Barclays Bank plc, see Note 18.

6. Auditors' remuneration

	2009 £'000	2008 £'000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	31	31
Fees payable to the Company's auditor and its associates in respect of:		
Other services relating to taxation	5	5
Services relating to corporate finance transactions	—	20
All other services	—	14

7. Finance costs

	2009 £'000	2008 £'000
On bank loans and overdrafts	942	564
Bank fees	299	78
Finance leases	4	1
Other interest payable	49	10
	1,294	653

notes to the financial statements continued

for the year ended 31 March 2009

8. Employee costs

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

	2009 £'000	2008 £'000
Wages and salaries	2,944	2,835
Social security costs	327	279
Share option expense	23	35
Other pension costs	18	16
	3,312	3,165

Employee costs include £1,016,194 non-recurring costs (Note 5) (2008: £810,796).

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

	2009 Number	2008 Number
Non-executive directors	4	4
Administrative staff	74	65
	78	69

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 Group.

9. Directors' emoluments

	2009 £'000	2008 £'000
Emoluments	848	794
Group pension contributions to money purchase pension schemes	18	16

During the year retirement benefits were accruing to 1 director (2008: 1) in respect of money purchase pension schemes. The highest paid director received remuneration of £250,313 (2008: £207,050). Termination benefits of £128,250 were paid to a director during the year.

The value of the Group's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £17,637 (2008: £15,889).

The share option expense recognised during the year in respect of the directors was £5,000 (2008: £8,968).

10. Income tax expense

	2009 £'000	2008 £'000
Current tax (see Note below)		
UK corporation tax credit on losses for the year	(51)	65
Adjustments in respect of prior periods	(25)	—
Total current tax	(76)	65
Deferred tax		
Origination and reversal of timing differences	52	40
Adjustments in respect of prior periods	(138)	—
Total deferred tax (see Note 13)	(86)	40
Total income tax (credit)/expense	(162)	105

Factors affecting tax charge for the year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 30% (2008: 30%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2009 £'000	2008 £'000
(Loss) before income tax	(1,403)	(738)
Tax rate	28%	30%
Expected tax credit	(392)	(221)
Expenses not deductible for tax purposes	7	32
Amortisation not deductible for tax purposes	353	303
Share option relief	14	—
Effect of rate change on losses carried back	19	—
Adjustments to tax charge in respect of prior periods	(163)	—
Marginal relief	—	(8)
Other timing differences	—	—
Actual tax (credit)/expense net (see Note above)	(162)	105

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

11. Intangible fixed assets

Group and Company	License £'000	Computer software £'000	Customer base £'000	Total £'000
Cost				
At 1 April 2007	22	458	17,171	17,651
Additions	4	204	9,425	9,633
Addition from subsidiary	—	96	—	96
Retrospective adjustment	—	(96)	—	(96)
At 1 April 2008	26	662	26,596	27,284
Additions	—	89	55	144
Disposals	—	—	—	—
At 31 March 2009	26	751	26,651	27,428
Amortisation				
At 1 April 2007	3	226	2,767	2,996
Charge for the year	3	241	1,626	1,870
Disposals	—	(96)	—	(96)
At 1 April 2008	6	371	4,393	4,770
Charge for the year	3	175	1,948	2,126
Disposals	—	—	—	—
At 31 March 2009	9	546	6,341	6,896
Net book value				
At 31 March 2009	17	205	20,310	20,532
At 31 March 2008	20	291	22,203	22,514

The Group has no internally generated intangible assets.

The Group acquired a billing system during the year ended 31 March 2008 by way of a hive up of assets from a subsidiary, with a net book value of £96,218 at the date of hive up. The billing system was required to maintain continuity of the billing cycle during the transitional period. Following the transition of the acquired customer base to the AdEPT billing platform the hived up billing system was disposed of.

12. Property, plant and equipment

Group and Company	Short term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2007	7	47	289	343
Additions	—	73	124	197
Addition from subsidiary	—	2	42	44
Disposals	—	—	—	—
At 1 April 2008	7	122	455	584
Additions	—	—	15	15
Disposals	—	—	—	—
At 31 March 2009	7	122	470	599
Depreciation				
At 1 April 2007	5	35	144	184
Charge for the year	2	19	99	120
Disposals	—	—	—	—
At 1 April 2008	7	54	243	304
Charge for the year	—	30	130	160
Disposals	—	—	—	—
At 31 March 2009	7	84	373	464
Net book value				
At 31 March 2009	—	38	97	135
At 31 March 2008	—	68	212	280

The Group acquired tangible fixed assets during the year ended 31 March 2008 by way of a hive up of assets from a subsidiary, with a net book value of £44,454 at the date of hive up. These assets are in continuing use within the business.

notes to the financial statements continued

for the year ended 31 March 2009

13. Deferred taxation

	2009 £'000	2008 £'000
At 1 April 2008	713	18
Income statement charge	86	(40)
Acquired with subsidiary	—	735
At 31 March 2009	799	713

The deferred tax asset is made up as follows:

	2009 £'000	2008 £'000
Capital allowances	121	78
Tax losses	678	621
Other timing differences	—	14
	799	713

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

14. Fixed asset investments

	Total £'000
Shares in Group undertakings	
Cost or valuation	
At 1 April 2007 and 1 April 2008	12,829
Additions	—
31 March 2009	12,829
Amounts written off	
At 1 April 2007 and 1 April 2008	12,829
Amounts written off during the year	—
31 March 2009	12,829
Net book value	
At 31 March 2009	—
At 31 March 2008	—

Details of the principal Subsidiaries are disclosed in Note 23 to the financial statements.

15. Trade and other receivables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade receivables	2,628	3,420	2,628	3,420
Other receivables	8	9	8	9
Prepayments and accrued income	582	875	582	875
	3,218	4,304	3,218	4,304

As at 31 March 2009, trade receivables of £560,629 (2008: £380,125) were impaired and fully provided for. The ageing of the trade receivables which are past due and not impaired are as follows:

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
31–60 days	68	380	68	380
61–90 days	1	84	1	84
Over 90 days	34	171	34	171
	103	635	103	635

15. Trade and other receivables continued

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

	Group £'000	Company £'000
At 1 April 2007	412	412
Receivables written off during the year as uncollectible	(570)	(570)
Unused amounts reversed	(5)	(5)
Provision for receivables impairment for the year	543	543
At 1 April 2008	380	380
Receivables written off during the year as uncollectible	(472)	(472)
Unused amounts reversed	(35)	(35)
Provision for receivables impairment for the year	688	688
At 31 March 2009	561	561

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 asset classes within trade and other receivables do not contain impaired assets.

16. Trade and other payables

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade payables	3,292	3,701	3,292	3,701
Other taxes and social security costs	411	503	411	503
Finance lease obligations	6	16	6	16
Other payables	150	143	150	143
Accruals and deferred income	1,429	2,234	1,429	2,234
	5,288	6,597	5,288	6,597

The finance lease obligations are payable within one year and have a present value of £6,152. Included within accruals is deferred consideration of £Nil (2008: £619,044) in respect of the customer bases and subsidiaries acquired in the current and prior years.

17. Long term borrowings

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Between 1 and 2 years	1,474	1,712	1,474	1,712
Between 2 and 3 years	1,116	1,712	1,116	1,712
More than 3 years	7,513	7,103	7,513	7,103
Bank loans	10,103	10,527	10,103	10,527

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 £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 Group's forecasts. The amount is being charged to finance charges over the life of the loan.

notes to the financial statements continued

for the year ended 31 March 2009

18. Share capital

	2009 £'000	2008 £'000
Authorised		
65,000,000 Ordinary shares of 10p each	6,500	6,500
Allotted, called up and fully paid		
21,067,443 Ordinary shares of 10p each	2,107	2,107

Share options

At 31 March 2009, the following options and warrants over the shares of AdEPT were in issue:

	2009 Number of shares under option	2009 Weighted average exercise price	2008 Number of shares under option	2008 Weighted average exercise price
Outstanding at 1 April	2,313,046	75p	2,378,420	77p
Granted during the year	1,858,813	23p	—	—
Forfeited during the year	(20,600)	140p	(65,374)	145p
Exercised during the year	—	—	—	—
Outstanding at 31 March	4,151,259	52p	2,313,046	75p

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

	2009	2008
Risk free interest rate	2.71–4.13%	4.13%
Expected volatility	20.0–83.0%	20.0%
Expected option life (years)	1.25–5.7 years	1.25–5.7 years
Expected dividend yield	0%	0%
Weighted average share price	43p	60p
Weighted average exercise price	44p	60p
Weighted average fair value of options granted	5p	6p

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 IFRS2 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 (pence)	Expected option life (years)	31 March 2009	31 March 2008
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	342,216	342,216
6 June 2005	42	3.6–4.8	342,216	342,216
13 December 2005	140	2.3–4.1	342,216	342,216
14 February 2006	140	3.1–4.1	421,349	421,349
15 February 2006	140	1.25–2.25	86,761	107,361
9 May 2006	199	1.25–2.25	5,528	5,528
1 August 2008	42	3.0	750,000	—
21 January 2009	12	3.0	1,108,813	—
			4,151,259	2,313,046

During the year a warrant was issued to Barclays Bank plc over 5% of the diluted share capital of the Company. As at 31 March 2009 this entitled the holder to 1,108,813 shares. The weighted average fair value of this equity instrument of £55,500 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 2009 was 15.5p and the range during the year was 10.0p to 44.5p.

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

19. Reserves

Group	Share premium £'000	Profit and loss account £'000
At 1 April 2007	7,965	552
Loss for the year	—	(843)
Share options issued during the year	—	35
At 1 April 2008	7,965	(256)
Loss for the year	—	(1,241)
Share options issued during the year	—	27
At 31 March 2009	7,965	(1,470)

Company	Share premium £'000	Profit and loss account £'000
At 1 April 2007	7,965	552
Loss for the year	—	(843)
Share options issued during the year	—	35
At 1 April 2008	7,965	(256)
Loss for the year	—	(1,241)
Share options issued during the year	—	27
At 31 March 2009	7,965	(1,470)

20. Pension commitments

At 31 March 2009 there were no pension commitments (2008: £Nil).

21. Operating lease commitments

At 31 March 2009 the Group and Company had lease commitments as follows:

	Land and buildings		Other	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Group and Company				
Within 1 year	147	331	37	87
Between 2 and 5 years	484	612	7	29
More than 5 years	—	25	—	—

Land and buildings:

The Group 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 5 years.

Other:

The Group leases various office equipment and motor vehicles under non cancellable operating lease agreements. The lease terms are either 2 or 3 years.

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

22. Related party transactions

During the year CKR Holdings Ltd, a Company controlled by Mr C Fishwick, a director, provided consultancy services to the Group in the normal course of business and at an arm's length basis with a total value of £14,215 (2008: £10,000). There was no balance owing to CKR Holdings at the end of the year (2008: £Nil).

notes to the financial statements continued

for the year ended 31 March 2009

23. Principal subsidiaries

Company name

	Country	% shareholding of ordinary shares	Description
Transglobal Telecommunications Limited	England & Wales	100	Non-trading
Connaught Telecommunications Limited	England & Wales	100	Non-trading
Call Options UK Limited	England & Wales	100	Non-trading
Adept Managed Networks Limited	England & Wales	100	Non-trading
Connectacom Network Solutions Limited	England & Wales	100	Non-trading
Oxtalk Limited	England & Wales	100	Non-trading
Telecom Direct Limited	England & Wales	100	Non-trading

The business and assets of Subsidiaries are hived up to AdEPT immediately or within one month following acquisition. After the hive up, the Subsidiaries become inactive. With effect from April 2009 all of the above Subsidiaries, with the exception of Oxtalk Limited and Telecom Direct Limited (both non-trading), are in the process of being taken through a member's voluntary liquidation.

24. Capital commitments

At 31 March 2009 there were capital commitments of £65,000 (2008: £23,188).

25. Analysis of acquisitions

During the year ended 31 March 2008 the Group made two acquisitions. Following acquisition the customers were fully integrated into a single billing and customer service platform. Whilst revenue can be separately identified by acquisition, cost of sales cannot. Calls are routed across various network suppliers and the overhead base services all of our customers. The analysis of revenue by existing and acquired businesses is, therefore, as follows:

	31 March 2009 £'000	31 March 2008 £'000
Sales revenue		
Existing businesses	28,567	16,437
Businesses acquired in the year	—	7,181
Total sales revenue	28,567	23,618

26. Earnings per share

Earnings per share is calculated on the basis of a loss of £1,240,975 (2008: loss £842,743) divided by the weighted average number of shares in issue for the year of 21,067,443 (2008: 21,067,443). The diluted earnings per share is calculated on the assumption that the unapproved and EMI share options as disclosed in Note 18 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 (2008: 22,959,140).

Adjusted earnings per share is calculated by adding back amortisation of intangible assets and non-recurring costs to retained earnings, giving £2,027,701 (2008: £2,407,683). This is divided by the same weighted average number of shares as above.

	2009 £'000	2008 £'000
Earnings for the purposes of basic and diluted earnings per share		
Loss for the period attributable to equity holders of the parent	(1,241)	(843)
Amortisation	2,126	1,869
Non-recurring costs	1,314	1,381
Adjusted profit attributable to equity holders of the parent, adding back amortisation and non-recurring costs	2,199	2,407
Number of shares		
Weighted average number of shares used for earnings per share	21,067,443	21,067,443
Dilutive effect of share plans	4,151,259	1,891,697
Diluted weighted average number of shares used to calculate fully diluted earnings per share	25,218,702	22,959,140
Earnings per share		
Basic earnings per share	(5.89)p	(4.00)p
Fully diluted earnings per share	n/a	n/a
Adjusted earnings per share, after adding back amortisation and non-recurring costs		
Adjusted basic earnings per share	10.44p	11.43p
Adjusted fully diluted earnings per share	8.72p	10.49p

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

Adjusted earnings per share is calculated by dividing the retained earnings attributable to equity holders of the parent (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.

27. Financial instruments

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

	2009 £'000	2008 £'000
Financial assets		
Cash	733	155
Trade and other receivables	2,636	3,429
Financial liabilities		
Interest bearing loans and borrowings:		
Obligations under finance lease contracts	6	16
Floating rate borrowings	4,455	2,863
Fixed rate borrowings	7,400	8,588
Other financial liabilities	—	619
	11,861	12,086
Amounts due for settlement:		
Within 12 months	1,579	1,952
After 12 months	10,282	10,134
	11,861	12,086

The Facility A term loan bears interest at 3.5% over LIBOR and is repayable by quarterly instalments of £394,650. The final repayment is due on 31 December 2011. At the year end the amount outstanding in respect of this facility was £9.355m.

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.

At 31 March 2009 the Group had no outstanding earnout liabilities (2008: £619,044). No interest is charged on these liabilities. The weighted average period of financial liabilities on which no interest is paid is 12 months (2008: 12 months).

The fixed interest rate liabilities relate to 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 Group 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 £250,000 and £1,500,000 respectively.

Obligations under finance leases

	2009 £'000	2008 £'000
Finance lease liabilities – minimum lease payments:		
No later than 1 year	6	17
Later than 1 years and no later than 5 years	—	—
Later than 5 years	—	—
Future finance charges on finance leases	—	(1)
Present value of finance lease liabilities	6	16
The present value of finance lease liabilities is as follows:		
No later than one year	6	16
Later than 1 years and no later than 5 years	—	—
Later than 5 years	—	—
	6	16

The Group has a certain amount of its property, plant and equipment under finance lease. For the year ended 31 March 2009 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. Outstanding finance lease obligations at 31 March 2009 are due to be settled within 12 months. The fair value of the Group's lease obligations approximates to their carrying amount.

notes to the financial statements continued

for the year ended 31 March 2009

27. Financial instruments continued

Sensitivity analysis

At 31 March 2009 it is estimated that a movement of one percentage point in interest rates would impact the Group's profit before tax by approximately £129,000. 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 Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep at least 75% of its borrowings at fixed rates of interest. At 31 March 2009, after taking into account the effect of interest rate management, 62.4% of the Group's borrowings are at a fixed rate of interest (2008: 75%).

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 Group'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 2009 was £3,369,207 (2008: £3,583,988).

Loans and receivables

	31 March 2009 £'000	31 March 2008 £'000
Trade receivables	2,628	3,420
Other receivables	8	9
Cash and cash equivalents	733	155
	3,369	3,584

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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 Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected parties.

Liquidity risk

The Group has an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity risk management requirements. The Group 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 Group'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

	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Year ended 31 March 2009				
Borrowings	1,474	1,474	8,629	—
Finance leases	6	—	—	—
Trade and other payables	3,442	—	—	—
	4,922	1,474	8,629	—
Year ended 31 March 2008				
Borrowings	923	1,712	8,815	—
Finance leases	10	6	—	—
Trade and other payables	3,845	—	—	—
	4,778	1,718	8,815	—

Currency risk

The Group's operations are handled entirely in sterling.

28. Events after the balance sheet date

The Group continues to manage its exposure to interest rate risks arising from financing activities. After the year end the Group entered an agreement to manage the interest rate risk on 100% of the Group's fixed term debts through to December 2011 at a more favourable rate than that which it replaced.

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numbers



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