AdEPT Telecom plc

Annual report and accounts 2011

faces

not numbers

AdEPT Telecom plc is one of the UK's leading independent telecommunications providers.

We offer a complete communications portfolio of fixed line calls, line rental, mobile and data connectivity products. Our tailored services are used by thousands of businesses and residential customers across the UK and are brought together through our strategic relationships with tier-1 suppliers such as BT, Cable & Wireless and Carphone Warehouse.

In this report

For more information and all the latest news, visit **www.adept-telecom.co.uk**

Financial highlights

- Underlying EBITDA[1] maintained at £3.6m (2010: £3.6m)
- Underlying EBITDA[1] margin increasing by 1.3% to 15.3% (2010: 14.0%)
- Excellent cash generation with free cash flow, after interest and before non-recurring costs, of £2.1m (2010: £1.9m)
- 99% of reported EBITA[2] (£3.3m) converted into cash generated from operating activities (£3.3m) (2010: 86%)
- Net debt reduction of £1.8m year-on-year (2010: £1.6m) to £7.4m (2010: £9.2m)
- £0.9m increase to profit before tax to £0.8m (2010: loss of £0.1m)
- 9.5% increase to adjusted EPS[3] to 10.15p (2010: 9.27p)

Operational highlights

- Substantially increased product range
- 11% increase in ARPU[4] as at March 2011 to £86.71 (2010: £77.97)
- Further progress in increasing revenue from fixed monthly charges to 54% of revenue for the year ended March 2011 (2010: 48%)
- Greater than 50% increase to mobile revenues year-on-year
- Greater than 25% increase to data revenues year-on-year
- 89% of revenue generated from customers taking more than one product or service (2010: 86%)
- 28% of revenue generated from customers taking three or more products (2010: 23%)
- Overhead costs (excluding one-off restructuring costs) decreased to 21% of revenue (2010: 23%)
- Credit collection processes and debt management improved with year end debtor days of 29 (2010: 30 days)

Net debt

Net debt reduced by £1.8m

Net debt reduced to £7.4m from £9.2m

EBITDA[1] %

EBITDA[1] improved to 15.3%

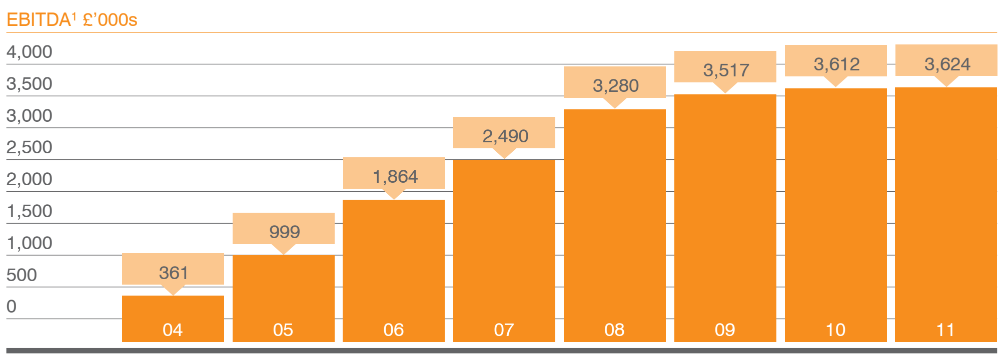
EBITDA increased from 14.0% to 15.3%

Free cash flow

+£2.1m

Free cash flow after interest of £2.1m

Eighth consecutive year of increasing EBITDA[1]



1 EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation
2 EBITA – Earnings Before Interest, Tax and Amortisation
3 EPS – Earnings Per Share
4 ARPU – Average Revenue Per User

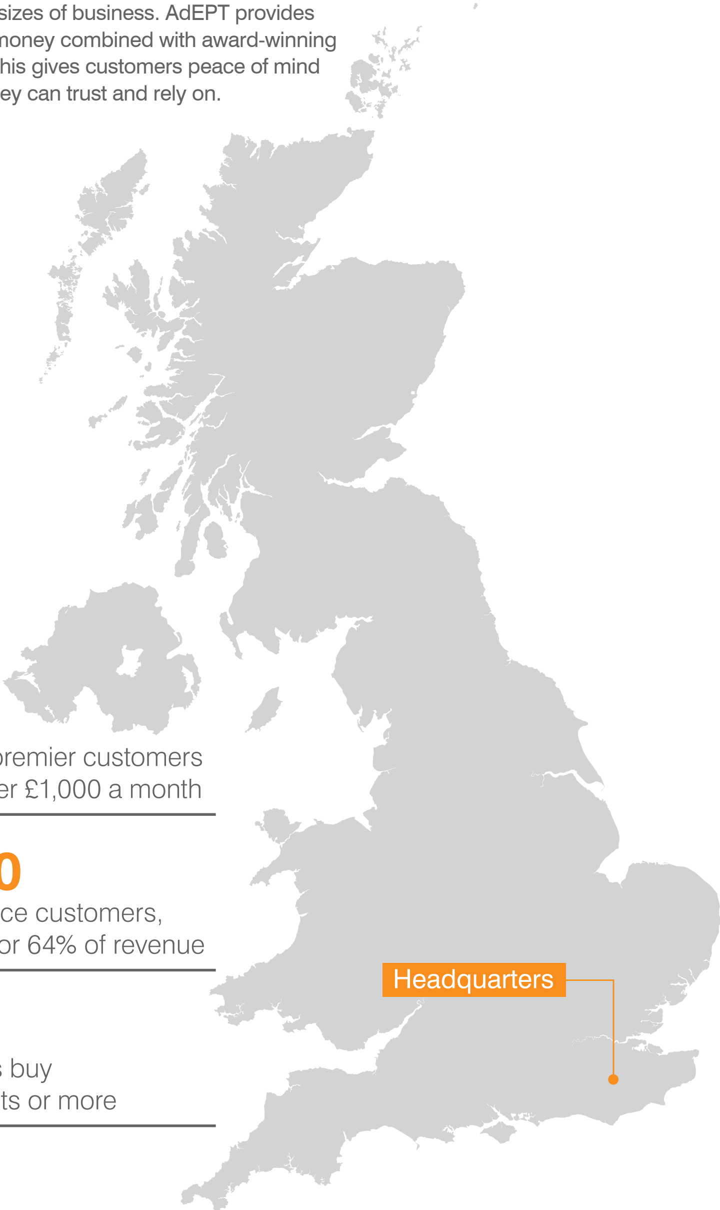
What we do at a glance

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.

Nationwide reach

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.



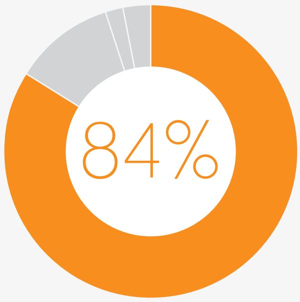
200
large-scale premier customers spending over £1,000 a month

20,000
volume service customers, accounting for 64% of revenue

28%
of customers buy three products or more

Fixed line

Revenue share

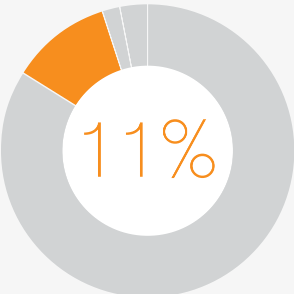


AdEPT offers a comprehensive range of business telecom products for all sizes of business. AdEPT provides great value of money combined with award-winning customer service levels. This gives customers peace of mind and a service they can rely on.

- We support the critical business communications for around 20,000 small, medium and large enterprise companies across the UK.
- From single analogue business lines to complex multi-site solutions, the AdEPT range of products and services are scalable.
- AdEPT has strategic relationships with tier-1 suppliers, such as BT, Cable & Wireless and Carphone Warehouse, to ensure the best possible choice of networks.

Data connectivity

Revenue share

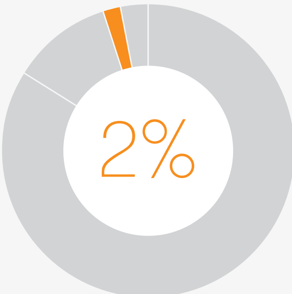


AdEPT provides fast, low-contention, higher quality broadband, leased lines connections and MPLS networks using 21st Century Network technology. Solutions are available from 2Mb to 1Gb with a service level agreement at a surprisingly low cost.

- AdEPT partners with all the major networks across the UK, ensuring that the customer can be provided with the most appropriate and cost effective solution to meet their requirements.
- All our data solutions are scalable, so they can keep pace as business needs evolve.
- AdEPT VoIP solutions, powered by BT wholesale, are one of the most advanced and robust IP telecoms solutions available.
- Whether it's a multi-site solution for a major UK company or an upgrade to IP telephony, AdEPT will tailor a solution.

Mobile

Revenue share

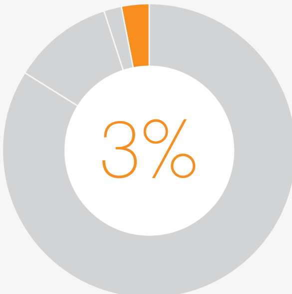


AdEPT Mobile provides a wide variety of mobile solutions tailored to the specific requirements of each customer.

- AdEPT Mobile offers simple, cost effective mobile tariffs and competitively priced handsets.
- The AdEPT Mobile Team advises on mobile broadband packages for business and gives guidance on the wide range of the latest devices and networks.
- As an independent provider, AdEPT provides customers with mobile solutions from each of the major mobile networks in the UK.
- AdEPT offers the full range of the latest mobile handsets and devices, whether it's the latest BlackBerry smartphone or mobile tablet PC.

Inbound

Revenue share



AdEPT's 'cloud' or network-based inbound call handling solutions offer a simple and scalable way to manage inbound calls, with online access enabling customers to implement changes instantly.

- The customer can decide how they would like their calls answered, handled and directed.
- Low set up costs using network-based solutions means no additional hardware, integration or maintenance issues.
- Call queuing at network level removes strain from customer's telecoms infrastructure.
- The unique flexibility of our systems means that no matter what type of call handling solution is needed, we can deliver it.

Chairman's statement
Roger Wilson Non-executive Chairman

Summary

Financial highlights

- EBITDA excluding non-recurring costs maintained at £3.6m (2010: £3.6m)
- Underlying EBITDA margin % increasing by 1.3% to 15.3% (2010: 14.0%)

Operational highlights

- Greater than 50% increase to mobile and data revenues year-on-year
- 89% of revenue generated from customers taking more than one product or service (2010: 86%)
- 28% of revenue generated from customers taking three or more products (2010: 23%)

Review of operations

Despite the revenue and gross margin pressure from the challenging economic climate and price pressure over the last twelve months underlying EBITDA has been maintained. The continued focus of concentrating on larger customers, generally businesses of 25 to 1,000 employees, has enhanced our ability to benefit from scale efficiencies and cross selling. The AdEPT Premier Customer division, comprising the 200 largest customers, accounts for approximately one-third of total revenue. Average contract length has been enhanced through an increased focus on providing multi-product solutions. At March 2011, customers taking three or more AdEPT products accounted for 28% of monthly revenue (23% in March 2010).

During the year AdEPT 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. This accreditation has contributed to some important contract wins.

Call volume reductions during the year have resulted in revenue becoming more stable as reliance on variable monthly call charges is reduced. The proportion of revenue derived from fixed monthly charges now represents 54% of total revenue (2010: 48%).

The strong cash flow generation continued during the year with £2.1m of free cash flow after interest. This was used to fund £0.3m of non-recurring costs and £1.8m reduction in net borrowings, to £7.4m at 31 March 2011.

New products

AdEPT was originally established as 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.

AdEPT has broadened its product range further during the year, particularly with regard to data connectivity, which has seen greater than 25% year-on-year revenue growth. Data services, such as Ethernet high speed access (up to 1Gb speeds) and MPLS networks have been added to the product portfolio. We are currently in the process of launching 40Mb fibre broadband utilising BT's 21st century network upgrade that offers fibre-to-the-cabinet in the street.

AdEPT has launched what we believe to be the UK's most advanced VoIP for business product range, and has built a new National VoIP Demonstration Centre at our headquarters in Tunbridge Wells. The service, powered by BT Wholesale, includes seven different ways of deploying VoIP for businesses. SIP trunking and hosted voice inter-work on a single BT network with dual resilience offered by two data centres in London. All VoIP services are managed via a single web portal. The VoIP products offer comprehensive solutions for every size of business: large and small sites as well as homeworkers.

AdEPT has had continued success with new 'cloud' or network-based inbound call handling solutions being provided to a number of major customers, including a new contact centre for a major UK airline.

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 2011 28% of revenue was generated from customers taking more than three or more products (2010: 23%).

In the larger customer base (those spending more than £1,000 per month) we have seen further improvement in product penetration. At March 2011 customers taking more than one product accounted for 98% of revenue generated (2010: 97%). The proportion taking three or more products increased to 64% at March 2011 (2010: 58%).

Profit before tax (PBT)

PBT increased by £0.9m

PBT increased by £0.9m to £0.8m

Earnings per share (EPS)

Adjusted EPS increase of 9.5%

Adjusted EPS increased from 9.27p to 10.15p

> "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."

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.

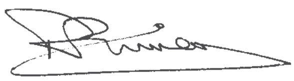
Shareholder benefits scheme

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 Company has been under top line pressure from the challenging economic climate and market price pressure over the last twelve months. Despite the top line and gross margin reduction, EBITDA has been maintained and net debt reduction of £1.8m was underpinned by focus on underlying profitability through improving margins on customer contracts, operational efficiencies and tight credit control. The further broadening of the product offering, particularly with regard to data connectivity, will ensure that AdEPT can continue to provide complete communication solutions for customers.

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. 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 customers.



Roger Wilson
Non-executive Chairman
25 July 2011

Financial and business review
John Swaite Finance Director

Summary

- Group revenue reduction of 8%, 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 11.2% increase in average customer monthly spend year-on-year. At March 2011 the largest 200 customers accounted for approximately one-third of total revenue
- Despite top line pressure the Company has maintained EBITDA. This has been achieved through continued operational efficiencies with underlying operating costs reduced by 2% to 23% of revenue

Revenue

Revenue by product area

Group revenue decreased by 7.8% to £23.7m (2010: £25.7m)

- Fixed line revenues were 11.0% lower at £21.3m (2010: £24.0m), with this reduction driven largely 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 43% of total revenue in March 2011 (2010: 47%).
- Data and broadband product revenues were up 27.4% to £1.8m (2010: £1.4m), with increases to the number of data circuits in place and the March 2011 revenue run rate for data and broadband was £2.0m. At March 2011 the contract revenue from data product orders placed awaiting connection was £0.8m due to longer connection timescales.
- Mobile revenues were ahead 52.2% to £0.5m (2010: £0.3m). We have only been selling mobiles for three years and handset volumes increased during the year by 476 to 1,845 (2010: 1,369). The revenue per connection has increased to £263 (2010: £232) driven by the increased take up of smartphones.

Total revenue generated from data, mobile and other services represented 11.8% of total revenue in March 2011 (2010: 8.7%).

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 53% of total revenue for the year ended March 2011 (2010: 48%) 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 89.3% for the year ended March 2011 (2010: 85.6%) 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 63.7% at March 2011 (2010: 58.1%).

Average spend per customer

The Company is continuing to focus on larger customers and AdEPT's largest 200 customers account for approximately one-third of March 2011 revenue.

Average customer monthly spend for business customers increased year-on-year by 11.2% to £86.71 in March 2011 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 have been under pressure during the year as the product mix has moved towards the lower margin data and broadband revenue streams. Particular gross margin pressure has been experienced in fixed line calls following the significant month-on-month changes to wholesale mobile termination rates passed through by the mobile networks. The recent OFCOM price regulation is expected to improve future wholesale price stability.

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 savings derived from in-sourcing of wholesale line rental management and a further reduction to bad debt provisions.

Net debt

Net debt reduced by £1.8m

Net debt reduced to £7.4m

Cash conversion

99% EBITA to cash conversion

99% of reported EBITA converted into cash generated from operating activities

As a result, the Company has seen a £1.0m reduction in underlying operating costs during the year ended March 2011 to £4.9m which is 20.7% of revenue (2010: 23.2%).

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 costs associated with restructuring and the close out of leases acquired with the Telecom Direct acquisition.

Impact of corporate failures

Whilst corporate failure has had a minimal impact on the overall results, it still remains higher than normal. In the year ended March 2011 there were 143 such failures in our customer base (2010: 207). These were mostly smaller companies with average debt per failed customer during the year ended March 2011 being £486 (2010: £435). We anticipate the relatively high corporate failure rate may continue for some time but that, as a result of the collection processes, the Company's exposure and risk has been reduced.

EBITDA

I am pleased to report underlying EBITDA has been maintained in line with the previous year.

Excluding non-recurring costs, EBITDA has increased marginally during the year despite top line pressure. The Company has focused on the underlying profitability or customers and revenue streams; as a result revenue reduction has been more than absorbed by gross margin improvement and the operational efficiencies and costs savings from managing larger customers and the earlier restructuring.

Profit before tax

This year the Company has recorded an £865,788 improvement with a reported profit before tax of £752,399 (2010: loss of £113,389). This arises from operational efficiency combined with the reduction in finance costs following the renewal of the banking facility on more favourable terms.

Earnings per share

Adjusted earnings per share, based on retained earnings adding back amortisation and non-recurring costs (see Note 22), has increased by 9.5% to 10.15p per share (2010: 9.27p).

Managing call volumes

AdEPT Telecom has a business partnership with one of the UK leading airlines. The customer is highly dependent upon inbound traffic management to ensure business continuity. AdEPT Telecom provides the customer with a complex network-based inbound call management solution.

The customer challenges

The customer call centre receives large volumes of inbound calls with high daily volume fluctuations. There are constantly changing staff levels and seasonal demand requirements, therefore, management of call volumes when at maximum capacity is vital.

The AdEPT Telecom solutions

- Non-geographic 21st Century Network inbound call centres solution – the ability to manage fluctuating call volumes
- Network-based functionality controlled by the customer, providing:
  - Call prioritisation
  - Call queuing
  - Disaster recovery
  - Real-time management information
  - Additional revenue stream
- Out of hours support 24/7
- Named account management and project managers providing specialist technical support to the customer
- Site assurance – call diversion in the event of an emergency

AdEPT Telecom provides complex 'cloud' and network-based solutions to a number of customer call centres across a wide range of sectors including insurance, holidays, legal advice, energy and telesales.

Financial and business review
continued

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 98.6% (2010: 86.3%). There was a net working capital outflow of £0.1m 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 29 days (2010: 30 days).

Increase in cash balances
After servicing its debt the Group achieved an increase in cash and cash equivalents of £0.5m 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 (2010: 0.2%). Intangible asset additions were negligible during the year (2010: £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 £2.1m was generated during the year ended March 2011; £0.3m of this was used to fund non-recurring costs with £1.8m being applied to net reduction. Net debt, which comprises cash balances and bank borrowings, has therefore improved to £7.4m (2010: £9.2m).

The Company's banking facilities were renewed during the year and the available banking facilities are described in Note 23 to the financial statements. The Company continues to manage its exposure to interest rate risks arising from financing activities.

Post balance sheet events
After the year end a resolution was passed and the Company received court approval for a reduction in its share capital. The share capital reduction has had no effect on the number of ordinary shares or the rights attaching to the ordinary shares and the

"AdEPT operates a resilient business model and has a strong customer proposition which will present opportunities in the coming year."

Designing flexible solutions

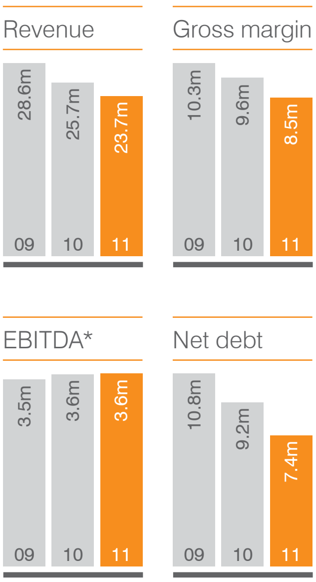
AdEPT Telecom provides a complex voice and data communications solution to a district council with dedicated account management via a single management point. The solution was designed to be fully scalable and flexible to provide future expansion as required.

The customer challenges
Local authorities are under continuous pressure to make savings, increase efficiency and value for money. AdEPT Telecom demonstrated to the council how it could provide solutions to secure savings and provide further efficiencies over the life of the contract.

The AdEPT Telecom solutions
- Transfer of ISDN and PSTN lines at lower price point with no disruption or changes to user behaviour
- Bulk migration of existing DSL lines managed by dedicated Project Team
- Managed Online Provisioning System (MOPS) providing web based provisioning, diagnostic and repair platform to enable diagnosis of issues right down to the on-site router
- Installation of bespoke Multi-Protocol Label Switching (MPLS) network using fibre based Ethernet services inter-connecting all council premises
- DSL back up to provide network resilience
- Named account management and project managers providing specialist technical support to the customer

AdEPT Telecom has over 700 multi-site customers and recognises that each organisation is distinct and unique. AdEPT provides complex multi-product solutions to meet each customer's individual requirements.

Summary of three year financial performance



* Before non-recurring costs.

market price of the shares has not been adjusted as a result of the capital reduction. The share capital reduction has been approved in order to maximise the share capital structure of the Company by creating distributable reserves with a view to facilitating a potential future dividend policy.

Resilient business model

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 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 15.5% of revenues;
- trade suppliers and partners are all top tier suppliers, providing confidence in the continuity and reliability of service to customers;
- 67.0% of the Company's customers pay by monthly direct debit, reducing the Company's credit risk;
- the Company has agreed banking facilities through to September 2013; and
- with the level of cash generation forecast, the Board expects the Company's net borrowing position to further improve over the next twelve months.

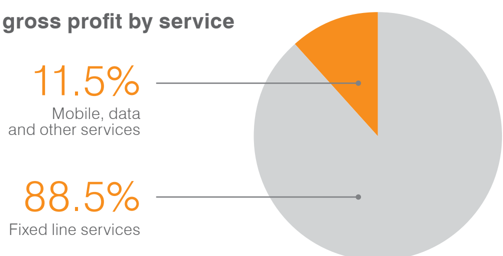
John Swaite
Finance Director
25 July 2011

Key performance indicators (KPIs)

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

	Fixed line services	Data, mobile and other services	Total
Revenue (£'000)			
Year ended 31 March 2011	**21,311**	**2,423**	**23,734**
Year ended 31 March 2010	23,953	1,772	25,725
Gross profit (£'000)			
Year ended 31 March 2011	**7,533**	**977**	**8,510**
Year ended 31 March 2010	8,862	699	9,561
Gross margin (%)			
Year ended 31 March 2011	**35.3**	**40.3**	**35.9**
Year ended 31 March 2010	37.0	39.4	37.2

Percentage of gross profit by service



Non-financial KPIs

The Company has non-financial KPIs that it monitors on a regular basis at Board level and, where relevant, management meetings which include:

	Total
Product penetration (%)	
Year ended 31 March 2011	**89.3**
Year ended 31 March 2010	85.6
Direct debit penetration (%)	
Year ended 31 March 2011	**67.0**
Year ended 31 March 2010	64.0
Customer credit collection (days)	
Year ended 31 March 2011	**29.0**
Year ended 31 March 2010	30.0

Board of directors

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.

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.

John Swaite
Finance director (BA Hons, ACA)

John joined AdEPT Telecom in March 2008 as Group Financial Controller having previously spent nine years with Crowe Clark Whitehill LLP (CCW), the Group's auditors. In his role as senior corporate finance manager for CCW, John was responsible for all aspects of financial due diligence on mergers and acquisitions and reporting accountant documentation on floatations. 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 and the Board in January 2009.

Dusko Lukic
Non-executive director

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.

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.

Joe Murphy
Sales director

Joe joined AdEPT in February 2005 and has been instrumental in the development of one of the UK's largest telecoms indirect sales channels. Joe joined AdEPT from Eescape Ltd where he managed key customer accounts including Samsung and MFI. Prior to this he spent four years with BT Wholesale, where he was account manager within the UK Service Providers division. Joe was appointed Sales director in May 2009 and joined the Board in July 2010.

Company information

Directors
Roger Wilson
Chris Fishwick
Ian Fishwick
John Swaite
Dusko Lukic
Amanda Woodruffe
Joe Murphy (appointed 19 July 2010)

Secretary
Maclay Murray & Spens LLP

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Directors' report
For the year ended 31 March 2011

The directors present their report and the financial statements for the year ended 31 March 2011.

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 was approved:

- there was no relevant audit information of which the Company's auditors were 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 pages 4 and 5.

Results and dividends
The profit for the year, after taxation, amounted to £263,500 (2010: loss of £354,749).

No dividend (2010: £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 £3,412 (2010: £4,163). 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 2011 there were 49 days' purchases outstanding (2010: 45 days'), calculated on a ratio of trade creditors to total purchases.

Substantial interests

At 31 March 2011 there were the following substantial interests (3% or more) in the Company's ordinary share capital.

	% holdings in ordinary share capital 31 March 2011
Croyde Limited	13.6
Invision III Limited Partnership	10.5
Codium Limited	9.3
Fiske Private Clients	5.9
Invision Capital III Limited Partnership	5.5
Oathall Plc	5.5
Ian Fishwick	5.4
Brewin Dolphin	5.0
Richard Blakesley	3.8
Octopus Investments	3.7
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, 67% 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 15.5% 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 2011

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 £5,830 (2010: £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, Crowe 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
25 July 2011

Corporate governance

The Board recognises the importance of sound corporate governance and intends to comply insofar 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.

Meeting attendance

Details of the attendance of individual members at meetings during the year are shown in the table below:

	Management Board meetings	Board meetings	Audit committee	Remuneration committee	Other meetings	Total attendance
R Wilson	2	5	1	4	1	13
C Fishwick	39	5	1	4	1	50
D Lukic	—	5	1	4	—	10
I Fishwick	42	5	—	—	1	48
A Woodruffe	42	4	—	—	1	47
J Swaite	41	5	1	—	1	48
J Murphy	42	5	—	—	1	48

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 which includes links to the Company share price, formal announcements, corporate governance and financial statements.

Corporate governance continued

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
25 July 2011

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 2011 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's 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.

We read all the information in the directors' report, chairman's statement, financial and business review and corporate governance statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 Crowe Clark Whitehill LLP
Statutory Auditor
Maidstone
25 July 2011

Statement of comprehensive income

For the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Revenue	4	**23,734**	25,725
Cost of sales		**(15,224)**	(16,164)
Gross profit		**8,510**	9,561
Administrative expenses		**(6,838)**	(8,382)
Operating profit		**1,672**	1,179
Total operating profit – analysed:			
Operating profit before non-recurring costs, depreciation and amortisation		**3,624**	3,612
Non-recurring costs		**(256)**	(326)
Share-based payments		**(23)**	(24)
Depreciation of tangible fixed assets		**(53)**	(102)
Impairment of intangible assets		**(137)**	(222)
Amortisation of intangible fixed assets		**(1,483)**	(1,759)
Total operating profit		**1,672**	1,179
Finance costs	7	**(920)**	(1,293)
Profit/(loss) before income tax		**752**	(114)
Income tax expense	10	**(489)**	(241)
Profit/(loss) for the year		**263**	(355)
Other comprehensive income		**—**	—
Total comprehensive income for the year		**263**	(355)
Total comprehensive income attributable to:			
Equity holders		**263**	(355)
Earnings per share:			
Basic earnings	22	**1.25p**	(1.68)p
Diluted earnings	22	**1.09p**	n/a

All amounts relate to continuing operations. The Notes on pages 22 to 33 form part of these financial statements.

Statement of financial position
As at 31 March 2011

	Note	31 March 2011 £'000	31 March 2010 £'000
Assets			
Non-current assets			
Intangible assets	11	**17,054**	18,663
Property, plant and equipment	12	**50**	72
Deferred income tax	13	**354**	612
		17,458	19,347
Current assets			
Trade and other receivables	14	**2,758**	2,901
Cash and cash equivalents		**1,361**	885
		4,119	3,786
Total assets		**21,577**	23,133
Current liabilities			
Trade and other payables	15	**3,957**	4,702
Income tax		**225**	60
Short-term borrowings		**1,456**	1,478
		5,638	6,240
Non-current liabilities			
Long-term borrowings	16	**7,270**	8,622
Provisions for liabilities and charges		**106**	—
Total liabilities		**13,014**	14,862
Net assets		**8,563**	8,271
Equity attributable to equity holders			
Share capital	17	**2,107**	2,107
Share premium		**7,965**	7,965
Retained earnings		**(1,509)**	(1,801)
Total equity		**8,563**	8,271

The financial statements were approved and authorised for issue by the Board on 25 July 2011 and signed on its behalf.

Ian Fishwick
Director

The Notes on pages 22 to 33 form part of these financial statements.

Registered number 4682431

Statement of changes in equity
For the year ended 31 March 2011

	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 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
Equity at 1 April 2010	2,107	7,965	101	(1,902)	8,271
Profit for the year	—	—	—	263	263
Deferred tax asset adjustment	—	—	—	6	6
Share-based payments	—	—	23	—	23
Net income/(expense) recognised directly in equity	2,107	7,965	124	(1,633)	8,563
Equity at 31 March 2011	**2,107**	**7,965**	**124**	**(1,633)**	**8,563**

The Notes on pages 22 to 33 form part of these financial statements.

Statement of cash flows
For the year ended 31 March 2011

	2011 £'000	2010 £'000
Cash flows from operating activities		
Profit/(loss) before income tax	**752**	(114)
Depreciation and amortisation	**1,673**	2,082
Share-based payments	**23**	24
Net finance costs	**920**	1,293
Operating cash flows before movements in working capital	**3,368**	3,285
Increase/(decrease) in trade and other receivables	**29**	(81)
Decrease in trade and other payables	**(153)**	(478)
Cash generated from operations	**3,244**	2,726
Income taxes received/(paid)	**(61)**	57
Net cash from operating activities	**3,183**	2,783
Cash flows from investing activities		
Interest paid	**(1,093)**	(895)
Purchase of intangible assets	**(11)**	(112)
Purchase of property, plant and equipment	**(31)**	(39)
Net cash used in investing activities	**(1,135)**	(1,046)
Cash flows from financing activities		
Repayment of finance leases	**—**	(6)
Repayment of borrowings	**(1,886)**	(1,579)
Increase of bank loan	**314**	—
Net cash from financing activities	**(1,572)**	(1,585)
Net increase in cash and cash equivalents	**476**	152
Cash and cash equivalents at beginning of year	**885**	733
Cash and cash equivalents at end of year	**1,361**	885
Cash and cash equivalents:		
Cash at bank and in hand	**1,361**	885
Bank overdrafts	**—**	—
Cash and cash equivalents	**1,361**	885

The Notes on pages 22 to 33 form part of these financial statements.

Notes to the financial statements
For the year ended 31 March 2011

1. Nature of operations and general information
AdEPT Telecom plc is one of the UK's leading independent providers of voice and data telecommunication 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 under the Companies Act, domiciled in the UK and the registered office is located at One London Wall, London EC2Y 5AB. 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 2010' 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 2010 and which are applicable to the Company, but which have not been adopted early are:

- IFRS 1 "First Time Adoption of International Financial Reporting Standards"
  - January 2010 revision effective for accounts commencing after 1 July 2010
  - May 2010 revision effective accounts commencing after 1 January 2011
  - December 2010 revision effective accounts commencing after 1 July 2011
- IFRS 3 "Business Combinations" May 2010 revision effective July 2010
- IFRS 7 "Financial Instruments"
  - May 2010 revision effective January 2011
  - October 2010 revision effective July 2011
- IFRS 9 "Financial Instruments Classification & Measurement" effective January 2013
- IAS 1 "Presentation of Financial Statements" May 2010 amendments effective January 2011
- IAS 12 "Income Taxes Limited" scope amendment effective January 2012
- IAS 24 "Related Party Disclosures" revised definition effective January 2011
- IAS 27 "Consolidated and Separate Financial Statements" May 2010 amendments effective July 2010
- IAS 32 "Financial Instruments" amendments regarding rights issues effective February 2010
- IAS 34 "Interim Financial" reporting May 2010 amendments effective January 2011

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 may result in some changes in presentation of information within the Company's financial statements.

The financial statements are presented in sterling which is the Company's functional and presentation currency. The figures shown in the financial statements are rounded to the nearest thousand pounds.

Segmental reporting
The directors have considered the requirements of IFRS 8 "Operating Segments" and have concluded that the Company has two segments. For further information see Note 4 of the financial statements.

Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and can be reliably measured.

Revenue from calls, which excludes value added tax and trade discounts, is recognised in the income statement at the time the call is made. Calls made in the year, but not billed by year end, are accrued within receivables as accrued income.

Revenue from line rental is recognised in the month that the charge relates to, commencing with a full month's charge in the month of connection. Revenue and related costs from the sales of mobile handsets are recognised at the date of supply or connection.

Revenue arising from the provision of internet and other services is recognised evenly over the periods in which the service is provided to the customer.

Connection commissions received from mobile network operators are recognised when the customer is connected to the mobile network after providing for expected future clawbacks.

The whole of the revenue is attributable to the provision of voice and data telecommunication services to both residential and business customers. All revenue arose within the United Kingdom.

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 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 17 years (2010: 15 years).

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 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 2011

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 (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 Notes 17 and 23, 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.

3. Critical accounting estimates and judgements continued

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. Segmental information

IFRS 8 “Operating Segments” require identification on the basis of internal reporting about components of the Company that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the Board. The Board reviews the Company’s internal reporting in order to assess performance and allocate resources. The operating segments are fixed line services and data, mobile and other services which are reported in a manner consistent with the internal reporting to the Board. The Board assesses the performance of the operating segments based on revenue, gross profit and EBITDA.

	Year ended 31 March 2011				Year ended 31 March 2010			
	Fixed line services	Data, mobile and other services	Central costs	Total	Fixed line services	Data, mobile and other services	Central costs	Total
Revenue	21,311	2,423	—	23,734	23,953	1,772	—	25,725
Gross profit	7,533	977	—	8,510	8,862	699	—	9,561
Gross margin %	35.3%	40.3%	—	35.9%	37.0%	39.4%	—	37.2%
EBITDA	3,231	393	—	3,624	3,460	152	—	3,612
EBITDA %	15.2%	16.2%	—	15.3%	14.4%	8.6%	—	14.0%
Amortisation	(1,620)	—	—	(1,620)	(1,981)	—	—	(1,981)
Depreciation	—	—	(53)	(53)	—	—	(102)	(102)
Exceptional operating costs	—	—	(256)	(256)	—	—	(326)	(326)
Share-based payments	—	—	(23)	(23)	—	—	(24)	(24)
Operating profit/(loss)	1,611	393	(332)	1,672	1,479	152	(452)	1,179
Finance costs	—	—	(920)	(920)	—	—	(1,293)	(1,293)
Income tax	—	—	(489)	(489)	—	—	(241)	(241)
Profit/(loss) before tax				263				(355)

The assets and liabilities relating to the above segments have not been disclosed as they are not separately identifiable and are not used by the chief operating decision maker to allocate resources.

Transactions with the largest customer of the Company are less than 10% of total turnover and do not require disclosure for either 2010 or 2011.

5. Operating profit

The operating profit is stated after charging:

	2011 £’000	2010 £’000
Amortisation of customer base, billing system and licence	1,620	1,981
Depreciation of tangible fixed assets:		
– owned by the Company	53	102
Share option expense	23	24
Minimum operating lease payments:		
– land and buildings	171	175
– motor vehicles and other equipment	36	27

The operating profit includes non-recurring costs of £256,244 (2010: £326,292), 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 17.

Notes to the financial statements continued
For the year ended 31 March 2011

6. Auditors' remuneration

	2011 £'000	2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	30	30
Fees payable to the Company's auditors and its associates in respect of:		
– other services relating to taxation	5	5

7. Finance costs

	2011 £'000	2010 £'000
On bank loans and overdrafts	814	895
Bank fees	—	398
Other interest payable	106	—
	920	1,293

Included within interest is a charge of £106,384 which relates to the fair value of the interest rate swap liability as calculated in accordance with IAS 39.

8. Employee costs
Staff costs, including directors' remuneration, were as follows:

	2011 £'000	2010 £'000
Wages and salaries	1,923	2,340
Social security costs	200	230
Share option expense	3	4
Other pension costs	14	14
	2,140	2,588

Employee costs include £249,230 non-recurring costs (Note 5) (2010: £287,749).

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

	2011 Number	2010 Number
Non-executive directors	3	3
Administrative staff	52	65
	55	68

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

	Short-term employee benefits			Post-employment benefits		
	Salary and fees paid or receivable £	Bonus paid or receivable £	Other benefits £	Pension contributions £	Total 2011 £	Total 2010 £
R Wilson	45,000	—	1,459	—	46,459	46,368
C Fishwick	100,000	—	—	—	100,000	100,000
D Lukic	15,000	—	—	—	15,000	15,000
I Fishwick	207,050	—	2,942	13,968	223,960	239,870
A Woodruffe	135,020	17,530	1,106	—	153,656	151,826
J Murphy	97,500	—	9,538	—	107,038	92,597
J Swaite	70,000	10,458	6,879	—	87,337	81,337
C Riggs	—	—	—	—	—	137,353
Total	669,570	27,988	21,924	13,968	733,450	864,351

During the year retirement benefits were accruing to one director (2010: one) in respect of money purchase pension schemes. The value of the Company's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £13,968 (2010: £14,471).

The share option expense recognised during the year in respect of the directors was £2,881 (2010: £3,980).

9. Directors' emoluments continued

Directors share options

	Option scheme	Options at 1 April 2010	Awarded in year	Options exercised	Options lapsed	Options at 31 March 2011	Option price	Exercise dates
I Fishwick	EMI	600,000	—	—	(600,000)	—	30p	28 December 2010
I Fishwick	EMI	—	510,638	—	—	510,638	30p	6 December 2013
I Fishwick	Unapproved	—	89,362	—	—	89,362	30p	6 December 2013
I Fishwick	Unapproved	152,160	—	—	—	152,160	30p	31 July 2013
A Woodruffe	EMI	171,108	—	—	—	171,108	42p	29 August 2011
A Woodruffe	EMI	171,108	—	—	—	171,108	42p	29 August 2011
A Woodruffe	EMI	187,952	—	—	—	187,952	42p	1 August 2015
A Woodruffe	Unapproved	62,048	—	—	—	62,048	42p	1 August 2015

Directors' interest in the ordinary shares of AdEPT Telecom plc:

	2011 Number of shares	2010 Number of shares
C Fishwick	6,434,400	6,434,400
I Fishwick	1,134,000	1,134,000
R Wilson	788,300	788,300
D Lukic	92,500	42,500
J Swaite	11,256	3,656
A Woodruffe	3,400	3,400

10. Income tax expense

	2011 £'000	2010 £'000
Current tax		
UK corporation tax on profit for the year	225	60
Adjustments in respect of prior periods	—	(6)
Total current tax	225	54
Deferred tax		
Origination and reversal of timing differences	264	174
Adjustments in respect of prior periods	—	13
Total deferred tax (see Note 13)	264	187
Total income tax expense	489	241

Factors affecting tax charge for year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 28% (2010: 28%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2011 £'000	2010 £'000
Profit/(loss) before income tax	752	(114)
Tax rate	28%	28%
Expected tax charge/(credit)	211	(32)
Expenses not deductible for tax purposes	8	13
Amortisation not deductible for tax purposes	258	274
Change in deferred tax rate	23	—
Adjustments to tax charge in respect of prior periods	—	6
Marginal relief	(11)	(20)
Actual tax expense net	489	241

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

Notes to the financial statements continued
For the year ended 31 March 2011

11. Intangible fixed assets

	Licence £'000	Computer software £'000	Customer base £'000	Total £'000
Cost				
At 1 April 2009	26	751	26,651	27,428
Additions	—	95	17	112
At 1 April 2010	26	846	26,668	27,540
Additions	—	11	—	11
At 31 March 2011	**26**	**857**	**26,668**	**27,551**
Amortisation				
At 1 April 2009	9	546	6,341	6,896
Charge for the year	1	150	1,608	1,759
Impairment charge	—	—	222	222
At 1 April 2010	10	696	8,171	8,877
Charge for the year	3	105	1,375	1,483
Impairment charge	—	—	137	137
At 31 March 2011	**13**	**801**	**9,683**	**10,497**
Net book value				
At 31 March 2011	**13**	**56**	**16,985**	**17,054**
At 31 March 2010	16	150	18,497	18,663

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 £137,737 and adjust the economic lives of the respective cash-generating units appropriately. The impairment review conducted at 31 March 2011 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
Cost				
At 1 April 2009	7	122	470	599
Additions	—	—	39	39
At 1 April 2010	7	122	509	638
Additions	—	2	34	36
Disposals	—	—	(244)	(244)
At 31 March 2011	**7**	**124**	**299**	**430**
Depreciation				
At 1 April 2009	7	84	373	464
Charge for the year	—	25	77	102
At 1 April 2010	7	109	450	566
Charge for the year	—	14	39	53
Disposals	—	—	(239)	(239)
At 31 March 2011	**7**	**123**	**250**	**380**
Net book value				
At 31 March 2011	**—**	**1**	**49**	**50**
At 31 March 2010	—	13	59	72

13. Deferred taxation

	2011 £'000	2010 £'000
At 1 April 2010	612	799
Income statement charge	(264)	(174)
Adjustments in respect of prior periods	6	(13)
At 31 March 2011	**354**	612

The deferred tax asset is made up as follows:

	2011 £'000	2010 £'000
Capital allowances	104	118
Derived financial liabilities	29	—
Share options	6	—
Tax losses	215	494
	354	612

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

14. Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	2,290	2,446
Other receivables	7	8
Prepayments and accrued income	461	447
	2,758	2,901

As at 31 March 2011, trade receivables of £237,560 (2010: £283,280) were impaired and fully provided for. The ageing of the trade receivables which are past due and not impaired are as follows:

	2011 £'000	2010 £'000
31–60 days	49	54
61–90 days	3	9
Over 90 days	68	83
	120	146

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

	£'000
At 1 April 2009	561
Receivables written off during the year as uncollectable	(521)
Provision for receivables impairment for the year	243
At 1 April 2010	283
Receivables written off during the year as uncollectable	(227)
Provision for receivables impairment for the year	181
At 31 March 2011	**237**

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 reviews the outstanding receivables and does 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

	2011 £'000	2010 £'000
Trade payables	2,601	2,685
Other taxes and social security costs	460	411
Other payables	96	121
Accruals and deferred income	800	1,485
	3,957	4,702

Notes to the financial statements continued
For the year ended 31 March 2011

16. Long-term borrowings

	2011 £'000	2010 £'000
Between one and two years	1,206	8,622
Between two and five years	5,126	—
More than five years	938	—
Bank loans	7,270	8,622

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 23.

Included within bank loans are arrangement fees amounting to £148,875 (2010: £177,480) which are being released over the term of the loan in accordance with IAS 39.

17. Share capital

	2011 £'000	2010 £'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 2011, the following options and warrants over the shares of AdEPT were in issue:

	2011		2010	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
Outstanding at 1 April	3,037,433	42p	4,151,259	52p
Granted during the year	600,000	30p	96,431	11p
Forfeited during the year	(607,651)	36p	(1,210,257)	44p
Exercised during the year	—	—	—	—
Outstanding at 31 March	3,029,782	42p	3,037,433	42p

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

	2011	2010
Risk free interest rate	1.95-4.13%	1.95–4.13%
Expected volatility	30-65%	41–66%
Expected option life (years)	1.0-5.7	1.25–5.7
Expected dividend yield	0%	0%
Weighted average share price	43p	27p
Weighted average exercise price	42p	42p
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 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 2011	31 March 2010
31 July 2003	29	5.7	152,160	152,160
28 December 2003	29	5.3	—	600,000
29 August 2004	42	4.6	171,108	171,108
6 June 2005	42	3.6–4.8	171,108	171,108
14 February 2006	140	3.1–4.1	421,349	421,349
15 February 2006	140	1.25–2.25	59,196	66,464
1 August 2008	42	3.0	250,000	250,000
21 January 2009	12	3.0	1,204,861	1,205,244
6 December 2010	30	1.0	600,000	—
			3,029,782	3,037,433

17. Share capital continued

Share options continued

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 2011 this entitled the holder to 1,204,861 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 2011 was 33.5p and the range during the year was 24.0p.

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

18. Pension commitments

At 31 March 2011 there were no pension commitments (2010: £Nil).

19. Operating lease commitments

At 31 March 2011 the Company had lease commitments as follows:

	Land and buildings		Other	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Within one year	153	153	38	12
Between two and five years	178	331	50	11
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 Limited and Rykesh Limited, companies 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 (2010: £100,000). There was no balance owing to CKR Holdings Limited or Rykesh Limited at the end of the year (2010: £Nil).

21. Capital commitments

At 31 March 2011 there were capital commitments of £34,000 (2010: £Nil).

22. Earnings per share

Earnings per share is calculated on the basis of a profit of £263,500 (2010: loss of £354,749) divided by the weighted average number of shares in issue for the year of 21,067,443 (2010: 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 24,097,225 (2010: 24,104,876).

An adjusted earnings per share is calculated by adding back amortisation of intangible assets and non-recurring costs to retained earnings, giving £2,139,307 (2010: £1,952,114). This is divided by the same weighted average number of shares as above.

	2011 £'000	2010 £'000
Earnings for the purposes of basic and diluted earnings per share		
Loss for the period attributable to equity holders	263	(355)
Amortisation	1,620	1,981
Non-recurring costs	256	326
Adjusted profit attributable to equity holders, adding back amortisation and non-recurring costs	2,139	1,952
Number of shares		
Weighted average number of shares used for earnings per share	21,067,443	21,067,443
Dilutive effect of share plans	3,029,782	3,037,433
Diluted weighted average number of shares used to calculate fully diluted earnings per share	24,097,225	24,104,876
Earnings per share		
Basic earnings per share	1.25p	(1.68)p
Fully diluted earnings per share	1.09p	n/a
Adjusted earnings per share, after adding back amortisation and non-recurring costs		
Adjusted basic earnings per share	10.15p	9.27p
Adjusted fully diluted earnings per share	8.88p	8.10p

Notes to the financial statements continued
For the year ended 31 March 2011

22. Earnings per share continued

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 31 March 2010 diluted earnings 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.

	2011 £'000	2010 £'000
Financial assets		
Cash	1,361	885
Trade and other receivables	2,297	2,454
Financial liabilities		
Interest-bearing loans and borrowings:		
Floating rate borrowings	—	—
Fixed rate borrowings	8,726	10,100
	8,726	10,100
Amounts due for settlement		
Within twelve months	1,456	1,478
After twelve months	7,270	8,622
	8,726	10,100

The Facility A term loan bears interest at 3.5-2.25% over LIBOR, dependent upon the EBITA ratchet, and is repayable by quarterly instalments of £375,000 to 31 March 2012 and reducing to quarterly instalments of £312,500 thereafter, with the final repayment due on 30 September 2015. At the year end the amount outstanding in respect of this facility was £5.875m.

The Facility B loan bears interest at 3.5% over LIBOR and is repayable in full on the final repayment date of 30 September 2013. At the year end the amount outstanding in respect of Facility B was £3.0m.

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

As at 31 March 2011 the Company had no finance lease obligations.

Sensitivity analysis

At 31 March 2011 it was estimated that a movement of 1% in interest rates would impact the Company's profit before tax by approximately £102,000. Given the interest rate swap instrument in place, this impact on profit would be reduced should interest rates rise above 2.96%.

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 2011, after taking into account the effect of interest rate management, 100% of the Company's borrowings are at a fixed rate of interest (2010: 100%).

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 2011 was £3,658,001 (2010: £3,339,297).

23. Financial instruments continued

Loans and receivables

	2011 £'000	2010 £'000
Trade receivables	2,290	2,446
Other receivables	7	8
Cash and cash equivalents	1,361	885
	3,658	3,339

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 2011	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	1,456	1,206	5,126	938
Finance leases	—	—	—	—
Trade and other payables	2,601	—	—	—
	4,057	1,206	5,126	938

Year ended 31 March 2010	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	1,478	8,622	—	—
Finance leases	—	—	—	—
Trade and other payables	2,807	—	—	—
	4,285	8,622	—	—

Currency risk

The Company's operations are handled entirely in sterling.

Capital risk management

The Company is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There were no changes to the Company's approach to capital management during the year.

As part of the new banking arrangements, which were completed during the year, the Company is required to comply with certain covenants including net debt to adjusted EBITA, interest cover and cash flow cover.

In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares or sell assets to reduce debt.

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