Consolidated Financial Statements

Gamma Telecom Holdings Limited

For the year ended 31 December 2012

Company No. 4287779

Company information

Company registration number	4287779
Registered office	5 Fleet Place LONDON EC4M 7RD
Directors	S J Burton R M Falconer O R Jonathan (appointed 25 Feb 2013) K E Kuok G Sreeves A J Stone C R H Stone M J C Stone K C Tse L P Wu
Secretary	G Sreeves
Bankers	HSBC Bank Plc 60 Queen Victoria Street LONDON EC4N 4TR
Solicitors	Charles Russell 5 Fleet Place LONDON EC4M 7RD
Auditor	Grant Thornton UK LLP Chartered Accountants Statutory Auditor 3140 Rowan Place John Smith Drive Oxford Business Park South OXFORD OX4 2WB

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Chairman's statement

The board are very pleased with the continued good progress made by the Gamma Group in 2012. Overall revenue grew from £131.4m in 2011 to £137.2m (+4.4%) and gross profit improved from £38.0m to £44.9m (+18.2%). EBITDA grew by 30.3% from £10.9m to £14.2m, while profit before tax increased to £9.3m, up 38.4% from £6.7m in 2011.

The net cash inflow before acquisitions and financing was £6.6m up 23.1% from 2011 (2011: £5.3m). As a consequence the business was able to return funds to shareholders through a share buyback of 2.7 million shares (11.5% of total share capital).

The business has now demonstrated consistent growth in cash generation over five years. This is despite the poor economic climate over this period and the continued erosion of the fixed calls market both in volume and regulated fixed to mobile rates.

The growth in gross profit has primarily come from communications services with much higher software content and in-house knowhow; these services now account for around 50% of the gross profit resulting from indirect sales. We are, nevertheless, pleased that the gross profit from the traditional calls and lines business has continued to hold steady in a declining market. Gamma now has a very comprehensive portfolio of Next Generation communications services, supplemented in 2012 by the addition of Ethernet.

The board have been particularly encouraged by the significant growth in Voice Applications Services (particularly inbound call control and Horizon, our cloud PBX service), whilst our business mobile service (through our MVNA[1] with Vodafone) has had a very successful year. SIP and data services continue to grow strongly in the market, displacing traditional means of connecting business sites, and opening up new opportunities for Gamma and its channel partners.

We have continued the strategy of re-focussing our direct retail activity away from smaller businesses, where most of our channel partners compete, towards larger organisations with more complex needs that wish to deal directly with a network owning operator. To accelerate this, in March 2012, we acquired 100% of the share capital of Varidion Ltd – a small but rapidly growing systems integrator focussed on satisfying the more complex data needs of the larger corporate market. By combining this with Gamma's product strength and financial stability under the Gamma Network Solutions brand we are well placed to compete directly with BT and other carriers in this demanding marketplace. Overall retail sales grew 11.9% to £25.9m.

The company has initiated a new venture in Manchester where Gamma owns over 77km of ducts with multiple optical fibres around the City. These assets were acquired during the company's formation and until now have remained largely idle. With increasing regeneration of much of the area within reach of this fibre, together with Manchester's ambition to be "one of the world's top 20 digital cities by 2020", we have been encouraged to bring the benefit of those assets to Manchester. In November we launched a new business called "The Loop – Manchester's fibre network" and have already connected up customers in the media industry.

The business is also preparing for opportunities to provide services to national government (Gamma already supplies many organisations in local government). The company is therefore pleased to have achieved accreditation in both ISO27001 and ISO22301 standards for security and business continuity respectively, and was accepted on to the new government Public Services (PSN) framework.

[1] Mobile Virtual Network Aggregator

Chairman's statement (continued)

The strategy remains to be faster than our competitors in bringing advanced services to market and giving our customers and channel partners a competitive advantage. This is underpinned by an unerring focus on service quality through automation and the recruitment and retention of high quality staff.

The average number of people in the Gamma Group increased over the year from 305 to 369, largely reflecting the emphasis on the development and launch of new products and the growth in volumes. Across the UK and Budapest offices we now have over 70 people engaged in product development. We were especially pleased to be ranked by the Sunday Times as one of the "100 Best Companies to Work For".

In 2013 we look forward to continuing to execute the strategy, and thereby shifting the business increasingly towards being a software focussed communications service provider.

Michael Stone
Chairman
13 March 2013

Report of the directors

The directors present their report and the consolidated financial statements of the group for the year ended 31 December 2012.

Principal activities and business review

The group is principally engaged in the provision of communications and software services for business.

Key performance indicators

	2012	2011	Change
Turnover	**£137.2m**	£131.4m	4.4%
Gross profit	**£44.9m**	£38.0m	18.2%
Gross profit percentage	**32.7%**	28.9%	3.8%
Earnings before interest, taxation, depreciation and amortisation	**£14.2m**	£10.9m	29.7%
Profit before taxation	**£9.3m**	£6.7m	38.4%
Cash expenditure on capital equipment	**£2.7m**	£4.4m	£(1.7)m
Cash inflow before acquisitions and financing	**£6.6m**	£5.3m	23.1%
Average headcount	**369**	305	64

Strategy
Gamma's strategy is to continue to grow both its market share and profitability by developing new innovative communications products for business and the public sector. These Next Generation products combine Gamma's IP network technology with its own software services platform, using software written by Gamma's in house development team.

Gamma Telecom Limited sells indirectly through third party resellers which include several major corporations including systems integrators and tier one telecommunications operators. The group also sells directly to business and the public sector through Gamma Network Solutions Limited and through Gamma Business Communications Limited via a network of independent sales agents.

Outlook
The continuing development of IP technology is radically changing the communications industry, and over the last few years Gamma has significantly increased the proportion of its business coming from IP products and services. Now, with continued investment in network technology and software, Gamma is well positioned to maintain its role as a leading provider of Next Generation IP communication services for the business market.

Financial overview

Despite the continued difficult economic conditions in 2012, Gamma recorded a third successive year of profit growth. Turnover increased by 4.4% to £137.2m (2011: £131.4m), gross profit was up 18.2% to £44.9m (2011: £38.0m) and profit before tax increased by 38.4% to £9.3m (2011: £6.7m).

The directors are pleased with the strong performance during the year and believe Gamma is well placed to continue this growth.

Report of the directors (continued)

The directors are not recommending the payment of a dividend.

Turnover
Turnover has increased by £5.8m to £137.2m in 2012 (2011: £131.4m).

Gross profit
Gross profit increased by £6.9m to £44.9m in 2012 (2011: £38.0m), representing a gross profit percentage of 32.7% (2011: 28.9%). The directors attribute this increase to the continuing growth in the proportion of overall sales coming from the higher margin IP and software based products.

Operating costs
Gamma's operating costs excluding depreciation and amortisation were higher in 2012 than in the previous year at £30.7m (2011: £27.1m). During the year the average number of staff employed grew by 64 to 369 (2011: 305) and the payroll cost increased by £4.2m to £18.8m (2011: £14.6m). The majority of the headcount increases were in operations (including engineering), sales and marketing, and they reflect the continued growth of the business and the investment required to develop and support Gamma's Next Generation products.

Capital expenditure
The total cash expenditure on fixed assets in 2012 was £2.7m (2011: £4.4m) as Gamma continued to invest in its network and to develop products on its IP and software services platform. This included £0.9m (2011: £1.0m) in relation to intellectual property created by Gamma's in house software development team.

Cash flow
Net cash inflow from operating activities was £10.4m in 2012 (2011: £10.4m). After interest payments, taxation and capital expenditure the cash inflow before acquisitions and financing was £6.6m (2011: £5.3m). This continues a consistent trend of strong cash generation over the last five years.

Environmental policy

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

- Gamma's commitment to reducing carbon emissions began in 2006 with the early adoption of IP based soft-switching in our core network, marking the first major initiative of its kind in the UK. Soft-switching has allowed Gamma to move from a power-hungry hardware infrastructure to a more software driven environment which uses far less power. In 2012 the group consumed 4.3 kwhr (2011: 4.0m kwhr), an increase year on year.
- Gamma Telecom is now a Certified CarbonNeutral company and is the only network operator in the UK to have a net zero carbon footprint. The group has been independently assessed for its carbon output, taking into account all utility usage, business travel and waste across each site, as well as the electricity consumed by the network. The total carbon output has been offset through investment in renewable energy projects through the CarbonNeutral Company Ltd, so that Gamma is a net zero carbon contributor to the environment. These projects include a geo-thermal and biomass project in Turkey and Sri Lanka.
- Providing products that can help end customers reduce their carbon footprint, for example, by enabling more efficient home working.
- Good housekeeping and encouraging flexi-working to reduce travel.
- The group continues to support The Woodland Trust via corporate membership.

Report of the directors (continued)

Principal risks and uncertainties

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

Regulation
The UK telecoms market is subject to significant regulation through Ofcom, the industry regulator. A major part of Gamma's expenditure relates to regulated products that it buys from BT in markets where BT has significant market power. Decisions by the regulator can therefore have a significant effect on the group's performance. Gamma seeks to engage with Ofcom and relevant industry bodies on a regular basis to ensure that Gamma's views on current and future regulation are well represented.

Competition
The UK fixed line telecoms market is highly competitive despite a reduction in the number of network operators in recent years. Gamma's strategy is to continually work to develop new products, including by making significant investments in research and development, which allow it to differentiate itself from its competitors.

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

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

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

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

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

Cash flow risks
The group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Research and development

The group is continuing its policy of developing the existing product range and researching new products that will contribute further to the expansion of the business.

Acquisition of the company's own shares

2,684,048 £0.01 ordinary shares, being 11.5% of the company's called up share capital, were acquired during the year for a total cash consideration of £6,522,237. Further details are set out in note 20.

Report of the directors (continued)

Employees

Gamma recognises the essential importance of employees to the success of the business and ensures that they are fully informed of events that directly affect them and their working conditions. Information on matters of concern to employees is given in briefings that seek to provide a common awareness on the part of all employees of the financial and economic factors affecting the group's performance.

During the year Gamma undertook the Best Companies Limited employee engagement survey and achieved a 2-star accreditation. The results from this survey attracted a listing in the Sunday Times Best 100 Companies to Work For and Gamma was placed in the top fifty companies in the UK.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. It is the policy of the company that training and promotion opportunities should be available to all employees.

Directors

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

S J Burton
R M Falconer
K E Kuok
M Sofaer (resigned 12 July 2012)
G Sreeves
A J Stone
C R H Stone
M J C Stone
K C Tse
L P Wu

Directors' and officers' liability insurance
The company has, as permitted by s234 and 235 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company.

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Report of the directors (continued)

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 group and company and profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

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

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

In so far as each of the directors is aware:

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

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

Auditor

Grant Thornton UK LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

ON BEHALF OF THE BOARD

G Sreeves
Director
13 March 2013

Grant Thornton

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

We have audited the financial statements of Gamma Telecom Holdings Limited for the year ended 31 December 2012 which comprise the principal accounting policies, the group profit and loss account, the group and parent company balance sheets, the group cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Director' responsibilities statement, 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 and form an opinion the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

Nicholas Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
[DATE]

Principal accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The principal accounting policies remain unchanged from the prior year and are set out below.

The accounts are prepared on the going concern basis. In assessing whether the going concern assumption is appropriate, the directors have taken into account all relevant available information about the future trading including profit and cash forecasts and available facilities and funding. The business has a track record of profitable growth and is cash generative and this is expected to continue. It is therefore considered appropriate to adopt the going concern basis of accounting in the preparation of the annual financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and the results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively.

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

Investments

Investments are recorded at cost less amounts written off.

The cost of acquisition is the amount of cash or cash equivalents paid and the fair value of other purchase consideration given by the acquirer, together with the expenses of the acquisition. Where the payment of consideration for an acquisition is to be made after the date of acquisition, reasonable estimates of the amounts expected to be paid are included in the cost of acquisition at their present values.

The cost of acquisition is adjusted when revised estimates are made, with consequential corresponding adjustments continuing to be made to the cost of the investment, and therefore goodwill, until the ultimate amount is known.

Employee Benefit Trust (EBT)

The group records assets and liabilities of the Trust as its own, in accordance with UTIF 38. Shares held are deducted in arriving at shareholder's funds and included in reserves until such time as the shares have unconditionally vested to the employees.

Principal accounting policies (continued)

Goodwill

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

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

Turnover

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

Fixed assets and depreciation

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

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

All fixed assets are initially recorded at cost.

Capitalisation of internal costs

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

Intangible assets – research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the group is expected to benefit. This period is four years. Provision is made for any impairment.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Work in progress comprises installation costs incurred which are underway and have yet to be accepted by the customer.

Hire purchase agreements

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

Principal accounting policies (continued)

Operating lease agreements

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

Pension costs

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

Deferred taxation

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

Foreign currencies

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

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

Share options

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

Cash settled share-based payments

Cash settled share-based payments are measured at fair value at the date of grant using an appropriate valuation model. Until the liability is settled, the fair value of the liability is re-measured at each reporting date, with any change in fair value being recognised in profit or loss for the period.

Where the company receiving the services is a subsidiary of the entity that will settle the obligation, a capital contribution is recognised in the subsidiary with a corresponding charge to the profit and loss account. The parent entity that will settle the obligation recognises an increase in the investment in group undertakings and a corresponding liability.

Principal accounting policies (continued)

Provisions

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

Financial liabilities and equity

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

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

Group profit and loss account

	Note	2012 £'000	2011 £'000
Group turnover	1	**137,218**	131,441
Cost of sales		**(92,329)**	(93,460)
Gross profit		**44,889**	37,981
Operating expenses	2	**(17,394)**	(15,150)
Selling and administrative expenses	2	**(13,338)**	(11,913)
Depreciation and amortisation	2	**(4,793)**	(4,118)
		(35,525)	(31,181)
Operating profit	3	**9,364**	6,800
Interest receivable		**22**	11
Interest payable and similar charges	6	**(46)**	(62)
Profit on ordinary activities before taxation		**9,340**	6,749
Tax on profit on ordinary activities	7	**(2,026)**	(1,957)
Profit for the financial year	22	**7,314**	4,792

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

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

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

Group balance sheet

	Note	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	9	**10,243**	7,582
Tangible assets	10	**18,153**	19,878
		28,396	27,460
Current assets			
Stocks	12	**326**	132
Debtors	13	**28,667**	24,207
Cash at bank and in hand		**7,183**	12,119
		36,176	36,458
Creditors: amounts falling due within one year	15	**(28,723)**	(28,065)
Net current assets		**7,453**	8,393
Total assets less current liabilities		**35,849**	35,853
Creditors: amounts falling due after more than one year	16	**(8,028)**	(8,717)
		27,821	27,136
Provisions for liabilities	17	**(885)**	(913)
		26,936	26,223
Capital and reserves			
Called-up equity share capital	20	**207**	234
Share premium account	22	**2,263**	2,263
Capital redemption reserve	22	**27**	–
Share option reserve	22	**687**	737
Foreign exchange reserve	22	**3**	3
Profit and loss account	22	**23,749**	22,986
Shareholders' funds	23	**26,936**	26,223

These consolidated financial statements were approved by the directors and authorised for issue on 13 March 2013 and are signed on their behalf by:

R M Falconer
Director
Company number: 4287779

G Sreeves
Director

Company balance sheet

	Note	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	9	**1,711**	1,348
Tangible assets	10	**17,861**	19,763
Investments	11	**10,973**	10,767
		30,545	31,878
Current assets			
Debtors	13	**1,581**	1,652
Cash at bank and in hand		**500**	10
		2,081	1,662
Creditors: amounts falling due within one year	15	**(15,994)**	(15,877)
Net current liabilities		**(13,913)**	(14,215)
Total assets less current liabilities		**16,632**	17,663
Creditors: amounts falling due after more than one year	16	**(6,924)**	(6,717)
		9,708	10,946
Capital and reserves			
Called-up equity share capital	20	**207**	234
Share premium account	22	**2,263**	2,263
Capital redemption reserve	22	**27**	–
Profit and loss account	22	**7,211**	8,449
Shareholders' funds	23	**9,708**	10,946

These consolidated financial statements were approved by the directors and authorised for issue on 13 March 2013 and are signed on their behalf by:

R M Falconer
Director
Company number: 4287779

G Sreeves
Director

Group cash flow statement

	Note	2012 £'000	2011 £'000
Net cash inflow from operating activities	24	**10,421**	10,399
Returns on investments and servicing of finance	24	**(24)**	(51)
Taxation	24	**(1,177)**	(654)
Capital expenditure and financial investment	24	**(2,662)**	(4,368)
Acquisitions and disposals	24	**(893)**	–
Cash inflow before financing		**5,665**	5,326
Financing	24	**(10,601)**	(3,584)
(Decrease)/Increase in cash	24	**(4,936)**	1,742

Notes to the consolidated financial statements

1 Turnover

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

	2012	2011
	£'000	£'000
United Kingdom	**137,218**	131,441

2 Other operating charges

	2012	2011
	£'000	£'000
Operating expenses	**17,394**	15,150
Selling and administrative expenses	**13,338**	11,913
Depreciation and amortisation	**4,793**	4,118
	35,525	31,181

3 Operating profit

Operating profit is stated after charging:

	2012	2011
	£'000	£'000
Amortisation:		
Goodwill	**647**	518
Other intangible fixed assets	**512**	271
Depreciation:		
Tangible fixed assets, owned	**3,634**	3,329
Fees payable to the company's auditor for the audit of the company accounts	**18**	32
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiaries	**61**	48
Other advisory services	**–**	184
Operating lease costs:		
Land and buildings	**976**	549
Plant and equipment	**50**	54

4 Particulars of employees and directors

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

	2012 No	2011 No
Operational	**168**	124
Selling, administration and distribution	**201**	181
	369	305

The aggregate payroll costs of the above were:

	2012 £'000	2011 £'000
Wages and salaries	**15,848**	12,546
Social security costs	**1,989**	1,479
Other pension costs	**1,005**	585
	18,842	14,610

5 Directors

Remuneration in respect of directors was as follows:

	2012 £'000	2011 £'000
Emoluments receivable	**303**	343
Value of company pension contributions to money purchase schemes	**474**	64
	777	407

Emoluments of highest paid director:

	2012 £'000	2011 £'000
Total emoluments (excluding pension contributions)	**187**	190
Value of company pension contributions to money purchase schemes	**248**	20
	435	210

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

	2012 No	2011 No
Money purchase schemes	**2**	2

6 Interest payable and similar charges

	2012 £'000	2011 £'000
Other interest payable	**46**	62
	46	62

7 Taxation on ordinary activities

(a) Taxation

	2012 £'000	2011 £'000
Current tax:		
UK Corporation tax based on the results for the year at 24.5% (2011: 26.49%)	**2,103**	1,145
Adjustment in respect of prior year	**(308)**	(89)
Total current tax	**1,795**	1,056
Deferred tax:		
Origination and reversal of timing differences (note 14)	**231**	901
Tax on profit on ordinary activities	**2,026**	1,957

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 24.5% (2011: 26.49%).

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	**9,340**	6,749
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.49%)	**2,288**	1,787
Fixed asset differences	**1**	–
Expenses not deductible for tax purposes	**211**	159
Income not chargeable for tax purposes	**(218)**	–
Adjustments to brought forward values	**(38)**	–
Additional deduction for R&D expenditure	**(344)**	(344)
Capital allowances in excess of depreciation	**(35)**	(556)
Depreciation in excess of capital allowances	**47**	–
Other timing differences	**47**	(38)
Utilisation of tax losses	**(15)**	–
Goodwill amortisation	**159**	137
Adjustment in respect of prior year	**(308)**	(89)
Total current tax	**1,795**	1,056

8 Profit attributable to members of the parent company

The parent company's profit for the year was £5,313,000 (2011: £3,897,000).

9 Intangible fixed assets

The group

	Goodwill on consolidation £'000	Purchased Goodwill £'000	Software Development assets £'000	Total £'000
Cost				
At 1 January 2012	11,294	1,618	1,671	14,583
Additions	2,945	–	875	3,820
At 31 December 2012	14,239	1,618	2,546	18,403
Amortisation				
At 1 January 2012	5,060	1,618	323	7,001
Charge for the year	647	–	512	1,159
At 31 December 2012	5,707	1,618	835	8,160
Net book value				
At 31 December 2012	**8,532**	**–**	**1,711**	**10,243**
At 31 December 2011	6,234	–	1,348	7,582

The company

	Software Development assets £'000	Total £'000
Cost		
At 1 January 2012	1,671	1,671
Additions	875	875
At 31 December 2012	2,546	2,546
Amortisation		
At 1 January 2012	323	323
Charge for the year	512	512
At 31 December 2012	835	835
Net book value		
At 31 December 2012	**1,711**	**1,711**
At 31 December 2011	1,348	1,348

9 Intangible fixed assets (continued)

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

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

10 Tangible fixed assets

The group	Network assets £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2012	36,351	8,849	998	42	46,240
Additions	821	947	19	–	1,787
Acquisition of subsidiary undertaking	67	59	42	–	168
Disposals	–	–	–	(5)	(5)
At 31 December 2012	37,239	9,855	1,059	37	48,190
Depreciation					
At 1 January 2012	19,319	6,253	752	38	26,362
Charge for the year	2,252	1,281	97	4	3,634
Acquisition of subsidiary undertaking	13	12	21	–	46
Disposals	–	–	–	(5)	(5)
At 31 December 2012	21,584	7,546	870	37	30,037
Net book value					
At 31 December 2012	**15,655**	**2,309**	**189**	**–**	**18,153**
At 31 December 2011	17,032	2,596	246	4	19,878

10 Tangible fixed assets (continued)

The company	Network assets £'000	Computer equipment £'000	Fixtures & fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2012	36,351	7,676	625	42	44,694
Additions	800	825	11	-	1,636
Disposals	-	-	-	(5)	(5)
At 31 December 2012	37,151	8,501	636	37	46,325
Depreciation					
At 1 January 2012	19,319	5,123	451	38	24,931
Charge for the year	2,239	1,227	68	4	3,538
Disposals	-	-	-	(5)	(5)
At 31 December 2012	21,558	6,350	519	37	28,464
Net book value					
At 31 December 2012	**15,593**	**2,151**	**117**	**-**	**17,861**
At 31 December 2011	17,032	2,553	174	4	19,763

11 Investments

The company	Shares in group undertakings £'000
Cost	
At 1 January 2012	10,767
Capital Contribution	206
At 31 December 2012	10,973
Net book value	
At 31 December 2012	**10,973**
At 31 December 2011	10,767

11 Investments (continued)

At 31 December 2012 the company held share capital of the following subsidiaries, all of which are registered in England and Wales with the exception of Peach Amber Kft which is registered in Hungary:

	Class of share capital	Proportion held by the parent company	Nature of business
Gamma Telecom Limited	Ordinary	100%	Telephony services
Gamma Metronet Limited	Ordinary	100%	Dormant
Gamma Business Communications Limited	Ordinary	100%	Retail telephony services
Peach Amber Kft	Ordinary	100%	Software services

At 31 December 2012 Gamma Telecom Limited was a member of the following company which is registered in England and Wales:

	Class of share capital	Proportion held by the parent company	Nature of business
NP4UK Limited	Limited by Guarantee	n/a	Dormant

At 31 December 2012, Gamma Business Communications Limited held share capital of the following subsidiaries, all of which are registered in England and Wales:

	Class of share capital	Proportion held by the parent company	Nature of business
Gamma Network Solutions Limited (formerly Varidion Limited)	Ordinary	100%	Data and communications networks
Uniworld Bureau Services Limited	Ordinary	100%	Dormant
Go Worldwide Communications Limited	Ordinary	100%	Dormant
Blue Spot Technologies Limited	Ordinary	100%	Dormant

12 Stocks

	The group		The company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Consumables	**280**	49	**–**	–
Work in progress	**46**	83	**–**	–
	326	132	**–**	–

13 Debtors

	The group		The company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Trade debtors	**19,213**	15,093	**–**	–
Amounts owed from group undertakings	**–**	–	**1,215**	1,281
Other debtors	**1,215**	1,063	**114**	114
Prepayments and accrued income	**7,895**	7,919	**252**	245
Deferred tax (note 14)	**344**	132	**–**	12
	28,667	24,207	**1,581**	1,652

14 Deferred taxation

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

	The group		The company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Net asset/(liability) brought forward	**9**	910	**(106)**	466
Profit and loss account movement arising during the period (note 7)	**(231)**	(901)	**(467)**	(572)
Acquisition of subsidiary undertaking	**(10)**	–	**–**	–
Net asset/(liability) carried forward (note 13/15)	**(232)**	9	**(573)**	(106)

The deferred taxation asset/(liability) consists of the tax effect of timing differences in respect of:

	The group		The company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Excess of depreciation over taxation allowances of fixed assets	**63**	54	**–**	12
Excess of taxation allowances over depreciation of fixed assets	**(576)**	(123)	**(573)**	(118)
Other timing differences	**281**	78	**–**	–
	(232)	9	**(573)**	(106)

14 Deferred taxation (continued)

The group has not recognised an additional deferred tax asset totalling £128,000 (2011: £191,000) and a liability of £81,000 (2011: £57,000); the company has not recognised an additional deferred tax liability totalling £81,000 (2011: £57,000). These have not been recognised as the differences are not expected to unwind in the near term.

15 Creditors: amounts falling due within one year

	The group		The company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Loan	**–**	2,000	**–**	–
Trade creditors	**5,601**	6,344	**1,102**	3,166
Corporation tax	**1,101**	484	**–**	–
Taxation and social security	**1,927**	1,366	**1,135**	342
Other creditors	**1,387**	275	**–**	–
Accruals and deferred income	**18,131**	17,473	**4,768**	6,337
Amounts owed to group undertakings	**–**	–	**8,416**	5,914
Deferred tax liability	**576**	123	**573**	118
	28,723	28,065	**15,994**	15,877

16 Creditors: amounts falling due after more than one year

	The group		The company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Loan	**–**	2,000	**–**	–
Other creditors	**8,028**	6,717	**6,924**	6,717
	8,028	8,717	**6,924**	6,717

17 Provisions for liabilities and charges

	The group		The company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Balance at 1 January	**913**	574	**–**	–
Profit and loss charge in the year	**(28)**	339	**–**	–
Balance at 31 December	**885**	913	**–**	–

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

18 Borrowings

Borrowings are repayable as follows:

	The group and the company	
	2012	2011
	£'000	£'000
Within one year	**–**	2,000
After one and within two years	**–**	2,000
	–	4,000

19 Commitments under operating leases

At 31 December 2012 the group had annual commitments under non-cancellable operating leases as set out below.

	2012		2011	
	Land and buildings	**Other**	Land and Buildings	Other
	£'000	**£'000**	£'000	£'000
In one year or less	**143**	**-**	124	–
Between one and five years	**290**	**23**	229	54
In five years or more	**238**	**-**	196	–
	671	**23**	549	54

20 Share capital

Authorised share capital:

	2012 £'000	2011 £'000
50,000,000 Ordinary shares of 1p each	**500**	500

Allotted, called up and fully paid:

	2012 No	2012 £'000	2011 No	2011 £'000
Ordinary shares of 1p each	**20,731,862**	**207**	23,415,910	234

In May 2012 the company bought back 2,684,048 ordinary shares, 11.5% of the called up share capital, with a nominal value of 1p each. A cash consideration of £6,522,237 was paid with the purpose of returning funds to shareholders.

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

Date of grant	Start of year/ Granted in year	Cancelled/ lapsed	End of year	Exercise Price	Notes
17 December 2002	25,000	(25,000)	–	£3.25	(a)
29 August 2003	5,122	–	5,122	£2.50	(b)
6 September 2005	12,000	–	12,000	£2.50	(b)
8 July 2009	1,121,027	(45,000)	1,076,027	£1.00	(b)
2 September 2009	37,500	–	37,500	£1.00	(b)
10 March 2010	141,351	(10,000)	131,351	£1.00	(b)
7 July 2010	25,000	–	25,000	£1.00	(b)

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

Notes:
(a) Vesting period is equally over three years
(b) Vesting period starts on date of issue

21 Share-based payments

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

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

The charge for share-based payments recognised in the year was £206,000 (2011: £nil).

22 Reserves

The group

	Share premium account £'000	Capital Redemption Reserve £'000	Share option reserve £'000	Foreign exchange reserve £'000	Profit and loss account £'000
At 1 January 2012	2,263	–	737	3	22,986
Profit for the year	–	–	–	–	7,314
Loss on retranslation of foreign subsidiary	–	–	–	–	–
Share buybacks and cancellations	–	27	(50)	–	(6,551)
At 31 December 2012	2,263	27	687	3	23,749

The company

	Share premium account £'000	Capital Redemption Reserve £'000	Profit and loss account £'000
At 1 January 2012	2,263	–	8,449
Profit for the year	–	–	5,313
Share buybacks and cancellations	–	27	(6,551)
At 31 December 2012	2,263	27	7,211

23 Reconciliation of shareholders' funds and movements on reserves

The group	2012 £'000	2011 £'000
Profit for the financial year	**7,314**	4,792
New shares issued	**–**	875
Foreign exchange movement	**–**	(18)
Share buybacks and cancellations	**(6,601)**	–
Net increase in shareholders' equity funds	**713**	5,649
Opening shareholders' funds	**26,223**	20,574
Closing shareholders' funds	**26,936**	26,223

The company	2012 £'000	2011 £'000
Profit for the financial year	**5,313**	3,897
New shares issued	**–**	875
Share buybacks and cancellations	**(6,551)**	–
Net increase in shareholders' equity funds	**(1,238)**	4,772
Opening shareholders' funds	**10,946**	6,174
Closing shareholders' funds	**9,708**	10,946

24 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2012 £'000	2011 £'000
Operating profit	**9,364**	6,800
Depreciation and amortisation	**4,793**	4,118
Profit on sale of tangible fixed assets	**1**	–
Decrease/(increase) in stocks	**(121)**	379
Increase in debtors	**(3,877)**	(2,978)
Increase in creditors	**319**	1,759
Increase/(decrease) in provisions	**(58)**	339
Gain on retranslation of foreign subsidiary	–	(18)
Net cash inflow from operating activities	**10,421**	10,399

24 Notes to the statement of cash flows (continued)

Returns on investments and servicing of finance

	2012 £'000	2011 £'000
Interest received	**22**	11
Interest paid	**(46)**	(62)
Net cash outflow from returns on investments and servicing of finance	**(24)**	(51)

Taxation

	2012 £'000	2011 £'000
Taxation	**(1,177)**	(654)

Capital expenditure and financial investment

	2012 £'000	2011 £'000
Payments to acquire tangible fixed assets	**(1,787)**	(3,340)
Payments to acquire intangible fixed assets	**(875)**	(1,028)
Net cash outflow for capital expenditure and financial investment	**(2,662)**	(4,368)

Acquisitions and disposals

	2012 £'000	2011 £'000
Purchase of subsidiary undertaking	**(802)**	–
Net overdraft acquired with subsidiary	**(91)**	–
Net cash outflow for acquisitions and disposals	**(893)**	–

Financing

	2012 £'000	2011 £'000
Invoice discounting facility repaid in the year	**–**	(1,579)
Loans repaid in the year	**(4,000)**	(2,000)
Share buybacks and cancellations	**(6,601)**	–
Repayment of amounts due under finance leases	**–**	(5)
Net cash outflow from financing	**(10,601)**	(3,584)

24 Notes to the statement of cash flows (continued)

Reconciliation of net cash flow to movement in net funds

	2012 £'000	2011 £'000
Increase/(decrease) in cash in the year	**(4,936)**	1,742
Cash outflow from decrease in debt	**4,000**	3,584
Change in net funds from cash flows	**(936)**	5,326
Net funds at 1 January	**8,119**	2,793
Net funds at 31 December	**7,183**	8,119

Analysis of changes in net funds

	At 1 Jan 2012 £'000	Net Cash flows £'000	At 31 Dec 2012 £'000
Net cash:			
Cash in hand and at bank	12,119	(4,936)	**7,183**
Debt due within one year:			
Loan	(2,000)	2,000	**–**
Debt due after one year:			
Loan	(2,000)	2,000	**–**
Net funds	8,119	(936)	**7,183**

25 Contingent liabilities

Neither the group nor the company had any contingent liabilities at 31 December 2012 or at 31 December 2011.

26 Capital commitments

Neither the group nor the company had any capital commitments at 31 December 2012 or at 31 December 2011.

27 Pension costs

The group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in a fund independent from those of the group. The pension costs charged in the year amounted to £1,005,000 (2011: £585,000).

28 Related Party Transactions

The group has taken advantage of the FRS 8 'Related Party Transaction' exemption from disclosure of intra group transactions between the parent and a wholly owned subsidiary.

29 Acquisitions

On 3 March 2012 the group acquired 100% of the issued share capital of Varidion Limited. On 30 March 2012 Varidion Limited undertook a change of name to Gamma Network Solutions Limited.

	Vendors' book value and Fair value to the group £'000
Assets and liabilities acquired	
Fixed assets	122
Stocks	73
Debtors	325
Other creditors and provisions	(492)
Net assets acquired	28
Satisfied by	
Consideration:	
Cash	802
Deferred contingent consideration	2,171
	2,973
Goodwill arising on acquisition (see note 9)	2,945

Goodwill is being amortised over 20 years.

The last financial statements for Gamma Network Solutions Limited (previously Varidion Limited) were prepared to 29 February 2012. The company was acquired on 3 March 2012 and there was no P&L activity from the last reporting date to the date of acquisition.

The deferred contingent consideration is dependent on the performance of the business. Any additional consideration will be a proportion of the incremental profit from the business during the earn-out period.