

2 December 2008

Alternative Networks plc
Preliminary Results for the year to 30 September 2008

Strong results with good growth across all divisions

	2008	2007	Change
	£000	£000	%
Statutory performance			
Turnover	93,707	72,083	30%
Operating profit	8,755	7,595	15%
EBITDA*	10,750	8,135	32%
Profit before taxation	8,901	7,953	12%
Earnings per share - basic	14.3p	13.9p	3%
- diluted	13.7p	13.3p	3%
Dividend per share ****	4.6p	3.3p	39%
Underlying performance			
Adjusted Operating profit **	10,432	7,952	31%
Adjusted *** Earnings per share - basic	16.5p	12.5p	32%
- diluted	15.8p	12.0p	32%

* Earnings before interest, taxation, depreciation and amortisation, and profit on sale of investment.

** Adjusted operating profit is as set out on the face of the profit and loss account

*** Adjusted earnings per share are based on profits as set out in Note 10.

**** Dividend per share is the interim dividend paid and the final dividend proposed, divided by the number of shares in issue at the year end.

2007 results are restated for the adoption of IFRS

Highlights

- Sales increased by 30% to £93.7m, with organic sales growth of 7% (2007: 7%)
- Successful acquisition of Echo bedded in
 - £17.7m sales and adjusted operating profits of £2.0m, up 67% over the annualised prior period.
- Underlying operating profits increased 31% to £10.4m, helped by improved operating margins of 11.1% (2007: 10.8%).
- Strong balance sheet and excellent cash generation
 - Free cash flow of £7.6m (2007: £6.5m);
 - Strong cash conversion at 96% EBITDA;
 - Net funds of £3.2m (2007: £1.8m), after returning £4m surplus cash to shareholders in August 2008 following a successful tender offer
- Consistently good performance in all product sets, with organic growth in sales and gross profits in each area.
 - Mobile subscribers increased 14% to 51,990
 - Network Services lines/channels increased 28% to 52,262
- Proposed dividend increase to 39% (2007: 3.3p)

Commenting on these results, James Murray, CEO said:

“Alternative Networks has delivered a strong performance in the year, with good progress achieved against our strategic aims. We realised solid organic growth across the business and successfully integrated Echo, which contributed meaningfully to results in the period.

“We continue to assess the economic environment carefully but believe we have a solid and tightly managed business which should prove resilient in the current environment. In particular, our strong balance sheet and cash position, good spread of customers across multiple sectors and high proportion of recurring revenue, at over 85%, positions us well in the year to come. Moreover, our services remain business critical to our customers as we continue to help them manage the cost of their telecommunication needs.

“The Board believes that the Group is well placed to support its customers through a recession and that there will be an opportunity to increase market share to support further organic growth. We also expect to be in a strong position to benefit from consolidation opportunities driven by a downturn in the economy.”

Enquiries:

Alternative Networks plc

James Murray, Chief Executive Officer
Ed Spurrier, Chief Financial Officer

0870 190 7444

Financial Dynamics

Juliet Clarke / Haya Chelhot / Emma Appleton

020 7831 3113

Chairman's Statement

As we enter an economic downturn, I am very pleased to announce the eighth consecutive set of strong results for Alternative Networks since our admission to AIM. I am equally pleased to report that the Group is in a strong position to tackle the undoubted challenges of the next year.

The business has again shown strong performance on all fronts, continuing to generate both organic and acquisitive growth with increased revenues and profits across the board. Due to the strength of the Group's net cash position and its strong cash generation, the Board has proposed an increased dividend to our shareholders, on top of the return of £4.1m to shareholders earlier in the year.

It has been a year of continued success, and I thank our staff for their loyalty and endeavour.

Good levels of organic growth have been shown in all areas of the business. Organic growth for the Group was encouraging, reflecting a robust performance from our direct sales teams, and one of our best years for retaining and re-signing clients. Networks services, mobile services and Advanced solutions all increased sales by between 5% and 15%. The telecoms estate we manage for our business clients has shown greater growth, with mobile subscribers growing up 14%, and fixed line end users increasing 28%, which reflects some recent significant net client gains.

Last year's acquisition of Echo Communications has been fully integrated and has proved its worth with sales of nearly £18m and £2m of profits, which was an excellent performance in a period of transition. With the integration completed, Alternative Networks is now really one business under one management.

Overall, Group profits and earnings have increased in line with our expectations, with EBITDA increasing 32% to £10.8m. Cash generated by operations was in excess of £10m, and reflects sound financial governance.

As we go into an economic downturn, the Group is in a healthy position, not only in terms of its balance sheet, but also due to the investment in systems and the management restructure completed in the last 18 months. We hope that our consistent strategy will enable us to continue to retain key staff and reward investors. Being the convergence partner of choice for SMEs means the business is ideally placed to support our customers through a recession by driving value and efficiencies into their businesses.

The resilience of the business model is sure to be tested. However, the group has no key customer reliance, a broad and diverse business customer base, very high level of recurring revenues, and a very low requirement for capital investment. This is underpinned by committed financial discipline and a sustained programme of investment.

Looking forward we anticipate some opportunities may arise from the downturn such as profit enhancing acquisitions and a weakening competitor position. Our outlook remains cautious but optimistic.

Kenneth McGeorge
Non-executive Chairman
1 December 2008

Chief Executive's Report

Overview

We are delighted to present a review of another successful year's trading for the Group.

Last year, we set out our aims for this year as follows:

- Maintain organic growth in the core business, especially by focussing on larger customers, keeping churn low and increasing product penetration into a wider customer base; and
- Integrate the Echo business into the Group and ensure our customers start to benefit from the products and solutions they provide; and
- Continue the programme to review acquisition opportunities and play an active part in the consolidation of the sector; and
- Continue to reorganise the business so that key staff remain motivated and that the business has a flatter, more efficient structure, across the combined Group; and
- Continue to improve business processes and quality of service.

During the year ended 30 September 2008 we have:

- Grown the business organically by 7%, and restricted churn in our most competitive business area, mobile, to 16% which is the lower end of the target band of 16-20%. We have also added 76 larger customers spending more than £1,000 per month to the Group, which represents a 6% increase from the prior year; and
- Integrated the Echo businesses into Alternative Networks' offices and unified the group client management; increased Echo's operating profits by £0.8m and delivered cross sale wins of over £2.5m revenues annualised; and
- Reviewed a number of acquisition prospects, principally in the IT and data services arena, although none has been deemed a sufficient fit at the right price; and
- Improved management structures and work flows in the business, including adopting the new case management software from our final CRM platform investment phase.

Financial Results

The Group reports sales increases of 30% to £93.7 million (2007: £72.1m) with organic growth of 7% when excluding Echo. This would have been 8%, if the EU regulations on roaming charges had not led to approximately £1.6m reductions in headline revenues in the year ended 30 September 2008

Echo contributed £17.7m revenues (2007: £1.3m) and its results are reviewed in more detail below.

Gross profit margins are in line with expectations, remaining at 35.0% across the Group.

Adjusted operating profit of the Group increased by 31% to £10.4m (2007: £8.0m). Echo contributed £2.0m (2007: £0.1m)

On a statutory basis, pre-tax profits increased 12% from £8.0m to £8.9m, with operating profits increasing 15% from £7.6m to £8.8m.

Cash generation continues to be a key highlight and differentiates the Group from many of its peers in the sector. Net cash inflow from operating activities was £10.3m (2007: £8.8m) which was 96% EBITDA in the period. Free cash flow was £7.6m (2007: £6.5m) and the healthy cash flow has meant that the Group was able to return £4m to shareholders during the year through a tender offer and general buy back programme, and finished the year with £3.2m net cash (2007: £1.8m).

Adjusted earnings per share grew 32% both in basic and diluted earnings to 16.5p and 15.8p respectively. Statutory earnings per share rose 3% from 13.9p to 14.3p. A detailed reconciliation is set out below in the financial and business review.

The Board has proposed a final dividend of 3.1p (2007: 2.3p), making a total of 4.6p for the year (2007: 3.3p), a growth of 39%, in line with our progressive dividend policy.

Strategy

The Group has persistently pursued its twin strategy of organic and acquisitive growth with a stated ambition to become the leading Converged Communications partner of choice for the UK's small and medium sized businesses.

Acquisitions

The Group has reviewed a number of acquisition opportunities in the period, especially in the IT and data services space. As ever, we remain focussed on what is the right fit, and at the right price. We are confident that our strong balance sheet and net cash of over £3m at the balance sheet date, as well as our newly increased bank debt facilities of £12m (undrawn), will put us in a powerful position in the year ahead. We remain in close contact with many of our peer group, in the event that opportunities may arise from distressed sellers.

Review of Organic Growth factors – update on KPIs

The four key organic growth factors supporting our strategy remain:

Focus on larger customers in SME space

The target customer in the market for the Group remains the business customer who spends between £1,000 and £10,000 per month. During this period we have continued to focus on maximising the numbers of customers who spend more than £1,000 per month on telecoms whether this is one product or multi-product, with a 6% growth in the number of higher spending customers.

At 30 September 2008, there were 1,410 (2007: 1,334) customers spending over £1,000 per month, reflecting a net gain of 76 over the year. Total customer numbers are 5,014.

Cross-selling

The Group has made solid progress in cross-selling the product set. Of the total customer base at 30 September 2008, over 36% took more than one product (2007 restated to include Echo: 35%).

Of all customers spending more than £1,000 per month, 70% (2007 restated to include Echo: 67%) took more than one product and, most encouragingly, 50% (2007 restated to include Echo: 43.7%) took three products or more. Mobile services are currently treated as one product whether data, voice or ancillary services.

Reduction in churn

2008 was a successful year for reducing churn. Our key metric of mobile network subscriber churn was reduced from 17% in 2007 to 16% in 2008, continuing an excellent trend (it has previously been 16% in 2006) and remains at the right end of our target band of 16-20%. We also monitor customer attrition by value. For mobile customers, this was much lower in 2008, at 15% compared to 21% in 2007.

We have previously highlighted the role which our CRM platform, our Clarity product and our commitment to excellence have helped play in reducing churn. In the year to 30 September 2008, we also focussed on ways of increasing feedback from customers and commissioned independent feedback, as well as launching the "How are we Doing ?" Campaign which enables customers to feedback on service and other issues to the Board and Chief Executive, directly from our website, and this was followed up with an email campaign.

Product development

Our organic growth depends on widening our share of our customers' communications spend and we rely on using our strategic partnerships to consistently deliver new growth opportunities. Since 1 October 2007, the main market developments have been around mobile business email and mobile broadband:

Additions to our portfolio of accredited products included:

- Vodafone HSDPA 3G dongle (more generally “mobile broadband”)
- Blackberry Business Professional Software which allows smaller companies to engage 90% of the advantages of the Blackberry Enterprise Server system. Simply put, it can sit on the company's email server (not separately), and works for up to 30 users.
- Blackberry Bold -, the 3G Blackberry whose processor is considerably faster than the 8310 ('Curve'), and has full wi-fi capabilities and has substitute 3G modem sales opportunities
- Microsoft Mobile - we have formalised our trial, installation and support.
- And, most recently, mobile broadband products on O2 with integrated wi-fi roaming on The Cloud and BT Openzone.

In 2008, the Group successfully extended its service providers' licence with Vodafone from December 2009 to December 2010 with unchanged terms, and is currently in advanced negotiations with O2 to renew the licence for another two years from July 2009.

The Group has focused its attention on its customer service and solutions, which will make the customer more dependent on our services but also add real value with cost reducing technology. Steps taken include:

- A further set of upgrades to our Clarity on-line reporting tools - specifically we have launched the latest release which allows customers to bulk-load user details and line descriptions to help manage their telecoms estate. Also included are automated mailshot of individual end user call analysis, and we have enabled customers to manage automatic mobile spend alerts, and call barring.
- A trio of solutions around Teleworking, being Hot Desking, Mobile working and Home Working. These are convergence solutions combining parts of the Echo and AN product offerings.

Resilient business model

The business is in good shape. I am pleased that the disciplined approach we have taken to growing our business from inception through to our admission to Aim in 2005, and subsequently, has helped us arrive in a strong position as we face a potential downturn.

The Board believes that Alternative Networks has a number of resilient features :

- We have a relatively strong balance sheet for our sector. We have no debt, but net cash of over £3m, with facilities in place for an extra £12m funding.
- We are an “asset-lite” business, with less than £0.5m capital investment required by the business next year.
- We are highly cash generative and have always been profitable.
- Our supplies are nearly all business critical – they are an essential part of our customers' daily needs. The services are broad and diverse, ranging across all mobile and data and fixed line communications.
- Our customers are spread across all industry and services sectors and the top 10 customers account for less than 10% of revenues.
- We have a direct sales force and a history of strong credit vetting and credit insurance, such that our customers are well known to us, and are less likely to present poor credit risk.
- We have a good visibility of future revenues – e.g. 85% of our revenues are recurring in nature, and over 80% of our customers are in current contracts.
- Our trade suppliers are all top US and European businesses, and continuity of service for our customers is assured.
- We have invested in the business and tightened up our management structure in the last two years, and finally, we have a Board which has worked together for over a decade.

And why do our customers need to carry on doing business with us?

- We offer unique tailored multi-product solutions and services, as well as standard products.
- We bespoke our offering to the smaller corporate, and have developed products like Clarity which clients increasingly depend on, as it gives the customers more control over their own costs.
- We can offer the best of breed carriers as part of our solution at lower prices than many of our competitors.
- We can show how savings from some of our offerings can be used to invest in new technology which will drive lower costs across all of the clients' spend, and we are one of the few groups who can offer, plan and implement a converged solution, across a range of devices, geographies and technologies.

Outlook

The Board will continue to monitor the economy and the health of its customer base very carefully, and has selected a number of KPIs to enable a rapid response to major threats.

The Board believes that the Group is well placed to support customers through a recession and that there will be a great opportunity to increase market share to support organic growth and we expect to be in a strong position to benefit from consolidation opportunities driven by a downturn in the economy.

James Murray
Chief Executive Officer
1 December 2008

Financial and Business Review

Summary performance of Group splitting out Echo

	Group	Echo	AN	AN	AN
			Excl Echo	Excl Echo	Organic
	2008	2008	2008	2007	Growth
	£m	£m	£m	£m	2008
Sales	£93.7	£17.7	£76.0	£70.7	7.4%
GP	£32.8	£6.6	£26.2	£24.9	5.2%
Adjusted operating profits	£10.4	£2.0	£8.4	£7.7	9.4%
Operating margins	11.1%	11.6%	11.0%	10.8%	

Echo performance

Echo was acquired on 31 August 2007, and has contributed its first 12 months to group results for the year ended 30 September 2008. In 2009, we will not report separately on Echo, and only on Advanced Solutions segment results.

We reported last year that in the 17 months to 31 August 2007, Echo's sales were £23m with adjusted operating profits of £1.7m. This equates to annualised sales of £16.2m, and operating profits of £1.2m. On this comparison, Echo's sales have increased 9%, and operating profits have increased 67%, comfortably in line with management expectations, and was an excellent performance in a period of transition for the group.

Echo - Network Services and Mobile performance

Overall gross profits from these services were in line with expectations, with buying gains ahead of expectations offsetting a marginal shortfall in revenues against original expectations.

Cross selling into the Echo customer base has been successful with £2.5m new annualised revenues added to their base for the year, across all product ranges. Larger client wins included Able & Cole (mobile), Harley Medical Centres (inbound), Portsmouth Primary Care Trust (outbound), and some multiple product deals such as Action Aid, and Advanced Travel Partners.

Total revenues were slightly below our expectations, with some increased churn in the mobile revenues, as we looked to re-sign all the customers into group style contracts. At 30 September 2008 there were 2,186 mobile subscribers, up from 2,105 at the beginning of the year. During the period, 1,314 additions came from cross selling mobile solutions to existing customers. However, the effect of this was largely offset by former clients leaving.

Echo - Systems and Maintenance and data revenues

Maintenance revenue ("IP PBX support") increased by 18% over the March 2007 numbers. This growth was partly due to the acquisition of the small Touchbase client base in March 2007, but also was supported by a number of large customer wins, of which one of the most notable was the British American Tobacco contract. BAT had been a long term target for the Group, and we were only able to win it with the enhanced product offering resulting from the Echo acquisition. Growth in the recurring revenues of the maintenance support contracts, together with their low churn rates, remains the priority of the Group.

The growth in new installed equipment revenues was a little disappointing at only 5% over March 2007 reported numbers. The original sales teams were still in place at the same numbers and were hitting consistent targets, but at a slightly lower level than previously expected.

Echo - Synergy gains

Echo's £0.8m increased operating profits are partly a result of £0.4m gains in networks margins, as the Group succeeded in negotiating much improved terms from the date of acquisition, with the remainder stemming from organic growth, and economies of scale. During the year the number of staff has reduced by 10 from 120 to 110, including two line managers who left and were not replaced but covered by existing management in the Group. In August 2008, Echo's founder, Richard Bampfyld resigned as an executive director, but has agreed to remain on the board of Echo as a non-executive director.

During the year, Echo's offices in Abingdon and London were closed, and staff moved to existing group locations. This has resulted in relatively small ongoing savings of approximately £0.1m. The key benefits will arise from the unification of client management, and in a more efficient management structure across the group.

The operating margins of the Echo business in 2008 of 11.6% are clearly much improved over the 7.1% reported in the year ended 31 March 2007. However, since they are also higher than the operating margins of the group (11.1%), it is likely they have been flattered by the absorption of some costs by the remainder of the group. Where possible, estimates of group costs have been identified and recharged appropriately in accordance with best practise, and a review of this procedure is currently underway. This may result in a higher level of recharges in 2009.

Trading review by products

In these product analyses, we have produced **AN** key performance indicators by product, which are the results for the Group excluding the Echo business, to permit a like for like understanding with 2007 when Echo was not present for 11 of the 12 months. In future results announcements, they will be combined as the networks businesses are no longer divisible.

Mobile

	2008	2008	2007
	<u>Group</u>	<u>AN</u>	<u>AN</u>
Turnover (£m)	43.6	41.1	38.1
Gross Profit (£m)	12.9	12.2	11.7
Gross Margin %	29.7%	29.7%	30.7%
Subscribers at 30 Sept	51,990	49,804	43,615
Monthly ARPU (£)	60	59	63
Monthly average contract length	22 m	22 m	20 m
Gross new connections in year	18,465	17,151	15,152
Network churn	16%	16%	17%
% Subscribers in-contract	85%	85%	81%
Data connections (included in above)	17,362	16,923	11,933
Data connections as % of total subscribers	33.4%	34.0%	27.4%

- Group mobile revenues increased by 14% to £43.6m (2007: £38.2m), with recorded organic growth of 8%. However, the EU roaming regulations meant that an estimated £1.6m revenues were lost in comparison to the comparative period (the prices changed on 29 September 2007). If this is added back for a like for like comparison, the underlying growth rate would have been 12%, which is broadly in line with the net subscriber base growth being achieved.
- The business subscriber base for the Group has increased 14% from 45,720 to 51,990 subscribers :
 - Net additions in the year were 6,270 (2007: 3,371), reflecting a strong year in terms of customer acquisitions and good overall churn management. In the first six months, the net additions were 3,329. The performance in the second half of the year was nearly as strong with 2,941 net gains. At the interim stage, we forecast churn would

- increase in the second half after an exceptional first six months (12% reported), and this has slightly impacted what was otherwise an excellent performance in the second half. Connections are now spread equally between O2 and Vodafone.
- Data connections now represent 33.4% (2007: 27%), of total connections, with a total of 5,429 data subscribers being added in the year. Two thirds of these were converged devices, with one third being data only dongle devices. The latter now covers over 6,000 data only devices, which is up over 40% on the year, reflecting the popularity of faster speed laptop dongles. This fast growth dilutes ARPU but is a core part of servicing and retaining business clients, and is expected to continue.
 - “Converged devices” (this is measured as a data connection which has passed voice traffic in the last three months e.g. BlackBerry/MS mail), continue to underpin revenue growth. Converged devices have grown over 50% in the year to over 10,700 connections (2007: 7,093), now representing one in five of existing connections. This trend is expected to continue over the year ahead, with the advent of the well publicised Blackberry Storm.
- ARPU has held up well at £60, aided by some higher spending Echo customers. Excluding these, monthly ARPU has fallen £4 to £59, but remains high compared against industry trends, due to the growth of converged devices. As explained in the interim statement, £3 of the fall was due to the EU roaming rate cuts implemented on 29 September 2007. The remaining £1 is accounted for by increases in lower ARPU fixed bundled tariffs and the increase in data-only dongles.
 - Gross margins returned to near their 2006 levels (29.7%), just shy of 30%, falling 1% year on year. At the interim stage, we said we expected that margins would end lower due to increasing competitive behaviour amongst the UK network operators, and due to the extra cost of funding additional re-signed customers, where the group accounting policy of writing off all subscriber acquisition costs up front means that inducements intended to last the contract length of two years are accounted for at the start of the contract. This margin reduction has occurred in what was a very busy year for the Group, not only dealing with all of the Echo customers but re-signing more customers than usual such that the number of connections in-contract at the year end went up to 85%, from 81% at 30 September 2007. Looking ahead the UK market remains very competitive, and the outlook for margins remains at the lower end of our stated band of 29 – 31%.
 - Network churn for the Group has remained in line with expectations set by the Board. At 16%, churn is marginally better than 2007 levels and remains at the lower end of the target 16-20% band.

Network Services

The numbers and prior year comparatives have been restated to include all inbound services, which have been moved from 'Advanced Solutions'. In addition, we have separately disclosed Inbound revenues to allow greater clarity. As the market moves towards an IP based infrastructure, the inbound services will increasingly be managed on the same network and sold and managed jointly with other fixed line features. As a result, all inbound services are now included in Network Services and no longer Advanced Solutions. Furthermore, Advanced Solutions has gained scale with the advent of Echo.

	2008	2008	2007
	<u>Group</u>	<u>AN</u>	<u>AN</u>
Turnover (£m)	£34.9	£30.7	£29.1
Gross Profit (£m)	£14.4	£12.8	£11.9
Gross Margin %	41.1%	41.6%	41.0%
<u>Outbound KPIs</u>			
Outbound - Monthly ARPU (£)	1,101	1,210	1,113
WLR as a % of total Outbound revenues	32%	32%	27%
Number of lines/channels	52,262	45,890	36,120
Average new customer contract length (months = "m")	16 m	16 m	21 m
<u>Inbound KPIs</u>			
Turnover (£m)	£7.1	£7.0	£6.2
Gross Margin %	58.4%	58.2%	60.1%

Group sales increased 19% from £29.4m to £34.9m. Excluding Echo's customers, sales increased 5% to £30.7m.

Outbound services

- Excluding Echo, outbound revenues grew 3.5% to £23.7m, with the second half showing growth of nearly 6% on a like for like basis. This growth has been stimulated by increased WLR sales, and by the addition of a number of larger customers, including significant Echo customers such as Action Aid and Portsmouth PCT which were Echo pbx maintenance support clients. Client wins may have been assisted by the change in the economy which might have stimulated many customers to look for further immediate savings in their spending, and are prepared to consider alternative suppliers with strong balance sheets.
- Wholesale Line Rental revenues ('WLR') increased by £2.6m to £8.8m, including £1.3m from Echo customers. This represents a 14% growth rate on a like for like basis. The lines under contract grew 28% on a like for like basis across the group, with Echo growing 33%, albeit from a low starting point. WLR now accounts for 32% of the total spend of our outbound customers, and we consider this is close to the normal level, which means future changes in sales mix will be marginal. New customer wins included Welsh Ambulance Service, and the Metropolitan Housing Trust.
- Echo customer revenues were £4.2m. This is a 26% increase over the revenues recorded in the year to 31 March 2007. Cross sell revenues have boosted sales. WLR lines under contract have increased in the year from 4,760 to 6,372, an increase of 33% over the year, and there remains scope for further growth in this base.
- Monthly average revenue per customer "ARPU" has fallen £12 to £1,101 over the year. However, this is a result of including the lower spend from Echo customers of £727 on average. Excluding this, the average spend would have increased to £1,210, a 9% increase. As in previous years, this reflects the continued success of upselling Wholesale Line Rental ("WLR") into these customers and the managed reduction of smaller less economic customers.
- Average new contract lengths have reduced to 16 months. In 2007, we noted the average of 21 months was unusually boosted by a number of 5 year contracts. In 2006, the average was 16 months. The trends are that customers will sign for 24 months when the services are bundled with mobile but will look for lesser periods if it is fixed line only, especially on re-sign.
- Gross margins in outbound traffic increased from 35.8% to 36.8%, a 1% gain, benefitting from some buying gains by consolidating much of the traffic with three carriers. Echo margins were boosted considerably by the group purchasing benefit throughout the year and over £0.5m synergy gains were realised and will be ongoing.

Inbound services

- Inbound services returned to double digit growth, up 15% to £7.1m. Echo's sales were only £0.1m annually, and on a like for like basis sales were up 13%. Partly this growth was achieved by increased revenue share from the Networks on 087x and 084x products, but was also due to new larger customers, such as the British Red Cross, and the bailiffs and debt recovery experts, Bristow & Sutor.
- Gross margins have declined by over 1.5%. The expected regulatory changes due to Ofcom's proposed but delayed regulation of the 0870 revenue share products have started to have a modest impact on margins, as clients started to migrate to lower pence per minute products. In particular, in the commercial sector, we have seen a (greater than expected) move away from 0800 revenues (client pays for terminating call) towards 0844 and 0845 revenues where the end customer pays for the low cost call and depending on volumes, the client might receive a modest share of revenue from the networks. Looking ahead, the wholesale switch away from 0870 revenues is still delayed with dates undetermined, but is not expected to have any material sudden adverse impact, any more than the addition or loss of significant customers.

Advanced Solutions

	2008	2008	2007
	<u>Group</u>	<u>AN</u>	<u>AN</u>
Turnover (£m)	15.2	4.2	3.6
Gross Profit (£m)	5.5	1.2	1.2
Gross Margin	36.1%	28.5%	32.3%
Sales			
IP PBX Installs	8.8	2.1	1.5
IP PBX Support	4.4	0.7	0.6
Data circuit rentals	2.0	1.4	1.5
IP PBX support GP	4.2	0.6	0.5
Engineering cost base	(2.5)	(0.4)	(0.3)

- Group sales changed in scale and increased from £4.4m to £15.2m largely due to the extra 11 months contribution of Echo. Both Echo and AN's existing business achieved organic growth of more than 9% over the prior periods. Echo continued to prove its excellent reputation for service with significant "blue light" support contracts with the London Ambulance Services and has implemented a number of advanced converged solutions. Recent contract wins include Advance Travel Partners, which is a multi site VOIP solution.
- Revenues from the recurring Maintenance support contracts increased by 15% proforma to £4.4m in the year. The group's engineering cost base remains covered by the profits on the support contracts of the group.
- Gross margins in Echo are higher than AN's legacy business due to a larger proportion of the higher margin maintenance revenues and greater economies of scale. These have helped push the group margins up from 32% to 36.1% in 2008. AN's own margins were reduced by nearly 4% due to increased engineering costs, up £0.1m, and slightly lower equipment margins and data margins.

Cash flow

Cash inflow from operations was excellent bringing in £10.3m (2007: £8.8m), representing a cash conversion of 96% EBITDA (2007: 108%). This was after a working capital outflow of £0.7m (2007: inflow of £0.4m), which was caused by the way the automatic direct debit payments to one supplier were phased. Otherwise the working capital movement on the year was neutral. Collections from debtors were particularly pleasing with trade debtors reduced by £1.8m.

The healthy cash conversion continues to highlight the Group's strong control over working capital and its prudent accounting policies. The policy of writing off customer acquisition costs immediately to the income statement, often in respect of two year contracts, has meant a further increase in the provision from £1.2m in 2007 to £1.6m in 2008. The increase in these provisions, together with the share option costs of £0.3m (2007: 0.2m), are the main contributors to the cash conversion rate of EBITDA averaging around 100% in the last two years.

The acquisition of Echo has had no material impact on the group's ability to generate cash. The majority of Echo's customers have moved to adopt standard group policies, which means that support contracts are invoiced in advance, either annually, quarterly or monthly for the largest clients. Standard policy is that new installations are billed typically 60% on order, 30% on delivery of kit to site, and 10% on completion. Standard collection terms for all these are 30 days.

Tax

The effective tax rate was 27.0% (2007: 22.2%). Note 2 below sets out the reconciliation back to the standard rate of profits being 29% in the year to 30 September 2008 (2007: 30%).

The main reason for the lower than expected tax charge was a £0.16m overprovision in respect of the previous year which was released in 2008. This was created by group relief claims utilising more tax losses than estimated in the 2007 provision.

Share buy-back programme

Following the publication of the half year results to 31 March 2008, on 1 July 2008, the Group announced the proposed return of cash to shareholders by way of a tender of up to £4m. This was approved at an extraordinary general meeting on 24 July 2008. The tender offer was successful as announced on 27 July 2008, and 5,608,890 shares were tendered at the strike price. These applications were scaled back and the Group purchased 2,857,119. Of these, 1,000,000 ordinary shares remain in Treasury and the remainder were cancelled.

On 18th August 2008, the Group announced that it would also commence a programme of share repurchases pursuant to the authority also granted on 24th July 2008. This permits the re-purchase of up to 4,771,162 ordinary shares at a maximum price of 5% above the average of the mid market prices for the previous 5 business days.

On 27th August 2008, the Group purchased 31,300 shares at 135 pence and these were cancelled.

Since the year end, the Group has announced further purchases of 387,500 between 17 and 21 October 2008, all at 135 pence per share. These shares have been cancelled.

In total the Group has repurchased 3.28 million shares. There are currently a maximum of 2.9m outstanding options granted to employees. The 1 million shares held in Treasury will be used for satisfying share option exercises and equity issued as part of an acquisition.

The Board will continue to monitor levels of cash and whilst these have historically been earmarked and utilised for future acquisitions, the possibility of returning excess levels of cash to shareholders will remain under consideration. It may be noted that the Board had previously held the authority to buy back up to 10% of the Group's issued share capital between 27 November 2006 and 29 January 2008, when it lapsed. No purchases were made in that period.

Earnings per share

Fully diluted adjusted earnings per share ('EPS') has increased by 32% to 15.8p (2006: 12.0p). Basic adjusted earnings per share have increased 32% from 12.5p to 16.5p.

The statutory or unadjusted fully diluted earnings per share has increased 3% from 13.9p to 14.3p, and the basic statutory earnings per share have increased 3% from 13.3p to 13.7p.

There is clearly a substantial difference in the two performances and we have set out below a reconciliation to show how the basic EPS in 2007 Annual Report under GAAP accounting reconciles to the comparative adjusted EPS shown this year. The two main factors are the exceptional £2.4m tax deduction the Group has on the exercise by staff of many IPO options in 2007, and the significant increase under IFRS of amortisation of acquired intangible assets in 2008, being principally the effect of amortising Echo's intangibles.

Reconciliation of Basic EPS - Statutory to Adjusted	2008	2007
	pence	pence
Reported Basic EPS at 30 September	14.3	13.0
IFRS transition - Goodwill amortisation removed	-	0.9
	14.3	13.9
Exceptional tax relief on AN's share options	-	(1.6)
Amortisation on Acquired assets/intangibles (taxed)	2.2	0.4
Gain on sale of shares in ANTS (taxed)	-	(0.2)
Adjusted Basic EPS at 30 September	16.5	12.5

Dividend per Share

The Board has proposed a final dividend of 3.1 pence per share (2007: 2.3 pence per share) making a total dividend of 4.6 pence per share for the full year (2007: 3.3 pence per share). The total dividend for the full year equates to approximately 33% of basic earnings per share (2007: 25% due to the exceptional tax gain). This is at the upper end of the Board's dividend policy set out in its prospectus, and illustrates the progressive nature of its dividend policy. The dividend will be paid on 29th January 2009 to shareholders on the register as of 31 December 2008.

Accounting Policy Review and IFRS

During the year, the Board reviewed the Group's accounting policies and treatments and are considered to be the most appropriate in the light of the change to IFRS.

Alternative Networks plc's consolidated financial statements were prepared in accordance with UK Generally Accepted Accounting Policies (GAAP) until 30 September 2007. UK GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRSs as adopted by the European Union. The comparative figures in respect of 30 September 2007 have been restated to reflect these adjustments. Full details of the adjustments to IFRS are shown in note 11.

**Edward Spurrier,
Chief Financial Officer
1 December 2008**

CONSOLIDATED INCOME STATEMENT
For the year ended 30 September 2008

	Notes	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Revenue:	1	93,707	72,083
Cost of sales		(60,913)	(46,853)
Gross profit		32,794	25,230
Operating costs		(24,039)	(17,635)
Operating profit:		8,755	7,595
Operating profit – analysed:			
Adjusted operating profit		10,433	7,952
Profit on part disposal of subsidiary operations		-	120
Share based payments		(303)	(220)
Amortisation of purchased customer contracts and other intangibles		(1,375)	(257)
Operating profit		8,755	7,595
Finance income		223	418
Finance costs		(77)	(60)
Profit on ordinary activities before taxation		8,901	7,953
Taxation on profit on ordinary activities	2	(2,402)	(1,763)
Profit on ordinary activities after taxation		6,499	6,190
Attributable to:-			
Equity shareholders of the company		6,497	6,183
Minority interest		2	7
		6,499	6,190
Earnings per ordinary share:			
Basic	4	14.3p	13.9p
Diluted	4	13.7p	13.3p

CONSOLIDATED BALANCE SHEET
As at 30 September 2008

	Notes	Group 30 September 2008 £'000	Group 30 September 2007 £'000
ASSETS			
Non-current assets			
Intangible assets		19,416	19,983
Property, plant and equipment		2,204	3,241
Investments		-	-
Deferred tax asset		675	679
Assets held for re-sale		887	-
Property deposits		14	63
		23,196	23,966
Current assets			
Inventories		382	251
Trade and other receivables	6	14,450	14,136
Cash and cash equivalents		4,227	3,422
		19,059	17,809
Total assets		42,255	41,775
EQUITY AND LIABILITIES			
Equity			
Called up share capital	7	57	60
Share premium		4,721	4,577
Capital Redemption Reserve		3	-
Merger reserve		1,905	1,905
Treasury shares held		(1,422)	-
Retained earnings		14,791	12,217
		20,055	18,759
Minority interest		-	7
		20,055	18,766
Current liabilities			
Borrowings		35	33
Contingent consideration		97	-
Current tax liabilities		1,380	878
Trade and other payables	8	18,391	18,462
		19,903	19,373
Non-current liabilities			
Borrowings		960	1,546
Contingent consideration		-	447
Deferred tax liabilities		1,337	1,643
		2,297	3,636
Total liabilities		22,200	23,009
Total equity and liabilities		42,255	41,775

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium £'000	Capital Redemption Reserve £'000	Merger reserve £'000	Shares held in Treasury £'000	Retained Earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
Balance at 1 October 2006	57	4,116	-	934	-	7,508	12,615	-	12,615
Shares issued IFRS2 share based payments	3	461	-	971	-	-	1,435	-	1,435
Deferred tax on share options	-	-	-	-	-	220	220	-	220
Profit for the year	-	-	-	-	-	(372)	(372)	-	(372)
Dividends paid	-	-	-	-	-	6,183	6,183	7	6,190
	-	-	-	-	-	(1,322)	(1,322)	-	(1,322)
Balance at 30 September 2007	60	4,577	-	1,905	-	12,217	18,759	7	18,766
Shares issued IFRS2 share based payments	-	19	-	-	-	-	19	-	19
Share buy-back	(3)	-	3	-	(1,422)	(2,681)	(4,103)	-	(4,103)
Shares issued to purchase minority interest	-	188	-	-	-	-	188	(9)	179
Share expenses	-	(63)	-	-	-	-	(63)	-	(63)
Deferred tax on share options	-	-	-	-	-	266	266	-	266
Profit for the year	-	-	-	-	-	6,497	6,497	2	6,499
Dividends paid	-	-	-	-	-	(1,811)	(1,811)	-	(1,811)
Balance at 30 September 2008	57	4,721	3	1,905	(1,422)	14,791	20,055	-	20,055

The balance classified as share capital includes the proceeds arising on issue of the Company's equity share capital, comprising 0.125p ordinary shares and the cancellation of shares purchased during the year.

Capital redemption reserve arose from the purchase of own share capital.

The merger reserve results from the acquisitions of Integrated Communications for Business (UK) Limited and The Telecom Centre Limited and represents the difference between the value of the shares acquired (nominal value plus related share premium) and the nominal value of the shares issued.

Shares acquired in relation to the employee Share Incentive Plan are held in treasury until such time as the awards vest. At 30 September 2008 the number of shares held in treasury was 1,000,000. These had a nominal value of £1,250 and a market value of £1.33 million.

During the current year the Group purchased 10% of AN Technical Services Limited to obtain 100% ownership thus removing the minority interest.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 September 2008

	Notes	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Cash flows from operating activities			
Cash generated from operations	9	10,335	8,784
Income tax paid		(1,940)	(2,066)
Net cash inflow from operating activities		8,395	6,718
Cash flows from investing activities			
Purchase of property, plant and equipment		(510)	(133)
Purchase of intangible assets (software)		(409)	(433)
Proceeds from sale of property, plant and equipment		-	7
Interest received		223	418
Cash acquired with acquisitions		-	732
Purchase of subsidiary undertaking		(276)	(11,548)
Proceeds of sale of subsidiary		-	120
Net cash used in investing activities		(972)	(10,837)
Cash flows from financing activities			
Dividends paid	3	(1,811)	(1,322)
Proceeds from issue of share capital		19	462
Payments made for share buy-backs		(4,102)	-
Share expenses		(63)	-
Repayments of borrowings		(584)	(27)
Interest paid		(77)	(60)
Net cash used in financing activities		(6,618)	(947)
Increase/(decrease) in cash and cash equivalents		805	(5,066)
Cash and cash equivalents at start of period		3,422	8,488
Cash and cash equivalents at end of period		4,227	3,422

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

Alternative Networks plc's consolidated financial statements were prepared in accordance with UK Generally Accepted Accounting Principles (GAAP) until 30 September 2007.

These financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS) and IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The financial information is abridged and does not contain the Group's full financial statements for the years ended 30 September 2007 and 2008.

Full financial statements for the year ended 30 September 2007 (which received an unqualified audit report) have been filed with the Registrar of Companies. Financial statements for the year ended 30 September 2008 will be presented to the Members at the forthcoming Annual General Meeting; the auditors have indicated that their report on these Financial Statements will be unqualified.

2. Taxation on profit on ordinary activities

	30 September 2008 £'000	30 September 2007 £'000
Taxation on profits for the year		
UK corporation tax on profits for the year	2,595	1,693
Over provision in the previous year	(158)	-
Total current tax	2,437	1,693
Deferred tax	(35)	70
Total tax charge	2,402	1,763

The current tax assessed for the period is lower (2007: lower) than the average rate of corporation tax in the UK of 29% (2007: 30%) applied to the profits before tax for the year. The differences are explained below:

	30 September 2008 £'000	30 September 2007 £'000
Profit on ordinary activities before tax	8,901	7,953
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 29% (2007: 30%)	2,581	2,386
Effects of:		
Expenses not deductible for tax purposes	12	8
Schedule 23 deduction in respect of share options	(27)	(713)
Other timing differences	(6)	82
Over provision in previous year	(158)	-
Total tax charge	2,402	1,763

	30 September 2008 £'000	30 September 2007 £'000
Current tax:		
Tax on profit in the year	2,595	1,693
Adjustments in respect of prior years	(158)	-
Total current tax	2,437	1,693
Deferred tax:		
Origination and reversal of timing differences	(407)	70
Utilisation of tax losses	372	-
Total deferred tax (credit) / charge	(35)	70
Total tax charge	2,402	1,763

3. Dividends

	30 September 2008 £'000	30 September 2007 £'000
2007 Final Paid - 2.30p (2006: 1.83p) per 0.125p ordinary share	1,096	852
2008 Interim Paid - 1.50p (2007: 1.00p) per 0.125p ordinary share	715	470
	1,811	1,322

The 2007 proposed final dividend of 2.30 pence per 0.125p ordinary share was paid on 31 January 2008. The amount of dividend paid was £1,096,000 (2006: £852,000).

The directors also paid a 2008 interim dividend of 1.50 pence per 0.125p ordinary share, with a total payment value of £715,000 (2007: £470,000). This was paid on 24 July 2008 to shareholders on the register on 11 July 2008.

In addition, the directors are proposing a final dividend in respect of the financial year ending 30 September 2008 of 3.10 pence per 0.125p ordinary share which will absorb an estimated £1,382,000 of shareholders' funds. Assuming it is approved by the shareholders at the Annual General Meeting on 26 January 2009, it will be paid on 29 January 2009 to shareholders who are on the register of members at 31 December 2008.

4. Earnings per share

The calculation of basic and fully diluted earnings per ordinary share is based on the profit attributable to equity holders of the company divided by the weighted average number of ordinary shares in issue during the year.

For diluted earning per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The group has one category of potential ordinary shares: those share options granted to employees where the exercise price is less than the average price of the company's ordinary share during the year.

The profit and weighted average number of shares used in the calculations are set out below:

Basic and fully diluted Earnings per share	Profit attributable to shareholders £'000	Weighted average of £0.00125 ordinary shares Number	Per share amount Pence
2008 Earnings per share – basic	6,497	45,337,790	14.3
Potentially dilutive shares	-	1,955,157	(0.6)
2008 Earnings per share – diluted	6,497	47,292,947	13.7
2007 Earnings per share – basic	6,183	44,609,537	13.9
Potentially dilutive shares	-	2,009,920	(0.6)
2007 Earnings per share – diluted	6,183	46,619,457	13.3

The adjusted EPS is based on the adjusted profit before tax as set out in note 10, and the weighted average number of shares as described above.

Basic and fully diluted Earnings per share	Profit attributable to shareholders £'000	Weighted average of £0.00125 ordinary shares Number	Per share amount Pence
2008 Earnings per share – basic	7,462	45,337,790	16.5
Potentially dilutive shares	-	1,955,157	(0.7)
2008 Earnings per share – diluted	7,462	47,292,947	15.8
2007 Earnings per share – basic	5,576	44,609,537	12.5
Potentially dilutive shares	-	2,009,920	(0.5)
2007 Earnings per share – diluted	5,576	46,619,457	12.0

As in prior periods, the calculation of the weighted average number of shares in issue excludes the shares held by the Alternative Networks Employee Benefit Trust of 1,915,200. These shares are then added to the total of extant options when calculating the fully diluted weighted average number of shares.

There were 45,963,355 shares in issue at 30 September 2008 including 1,000,000 shares held in treasury. On 30 September 2007 there were 47,633,220 shares. The weighted average number of shares during the year was 45,337,790 (2007: 44,609,537).

5. Acquisition fair value adjustments

	Book value at 31 August 2007 £'000	Provisional fair value adjustments £'000	Fair value at 1 October 2007 £'000	Final fair Value adjustments £'000	Fair value at September 2008 £'000
Intangible assets	903	5,865	6,768	-	6,768
Tangible assets	900	506	1,406	(300)	1,106
Deferred taxation	481	(1,642)	(1,161)	-	(1,161)
Stock	188	-	188	18	206
Debtors	3,375	-	3,375	(427)	2,948
Cash	732	-	732	-	732
Creditors due within 1 year	(4,023)	-	(4,023)	155	(3,868)
Creditors due after 1 year	(447)	-	(447)	-	(447)
Bank loans	(554)	-	(554)	-	(554)
Net assets acquired	1,555	4,729	6,284	(554)	5,730
Goodwill			6,627	345	6,973
Consideration			12,911	(209)	12,702
Satisfied by;-					
Cash consideration			11,391	125	11,516
Contingent consideration			447	(350)	97
Issue of 590,881 shares			971	-	971
Acquisition costs			102	16	118
			12,911	(209)	12,702

Intangible assets of £5,865,000 have been recognised in relation to the acquisition of Echo Communications in accordance with IFRS3. Those intangible assets separately identified related to the company's brand (£322,000) and customer base (£5,543,000). A Deferred tax liability of £1,642,000 has been created in relation to these intangible assets.

Tangible assets include £206,000 adjustments to the value of a freehold property which now sits in assets held for re-sale.

Contingent consideration has been adjusted to management's best estimate of what is reasonably expected to be paid.

6. Trade and other receivables

	Group 30 September 2008 £'000	Group 30 September 2007 £'000
Trade receivables	5,522	7,303
Amounts owed by group undertakings	-	-
Prepayments	2,584	1,359
Accrued income	6,297	5,445
Other receivables	47	29
	14,450	14,136

7. Called up share capital

	Group 30 September 2008 £'000	Group 30 September 2007 £'000
Authorised		
80,000,000 (2007: 80,000,000) ordinary shares of 0.125p (2007: 0.125p) each.	100	100
Allotted and fully paid up		
45,963,355 (2007: 47,633,220) ordinary shares of 0.125p (2007: 0.125p) each.	57	60

Movement in shares in issue

	2008 Shares	2007 Shares
Ordinary shares of 0.125p each		
At 1 October	47,633,220	45,216,738
Allotted under share option schemes	78,400	1,825,600
Allotted under EBT Scheme	-	-
Re-purchased and cancelled under buy-back scheme	(1,888,419)	-
Acquisition of Telecom Centre Limited	-	590,882
Acquisition of 10% of AN Technical Services Limited	140,154	-
	45,963,355	47,633,220

During the year 2,888,419 shares (representing approximately 6% of the issued share capital) were purchased by the company for £4,102,000 at an average cost per share of £1.42p. 1,888,419 of these shares were purchased for cancellation while the remainder have been held in treasury.

The effect of the buyback programme is to enhance earnings per share in the current and future years.

78,400 shares allotted under the share option schemes were issued at 25p resulting in a share premium of £19,500.

140,154 shares allotted for the acquisition of 10% of AN Technical Services were issued at £1.34 resulting in a share premium of £188,000.

8. Trade and other payables

	Group 30 September 2008 £'000	Group 30 September 2007 £'000
Trade payables	8,289	9,430
Amounts owed to group undertakings	-	-
Other taxation and social security costs	1,489	1,771
Other payables	278	359
Accruals and deferred income	8,335	6,902
	18,391	18,462

9. Cash generated from operations

Group	Year ended 30 September 2008 £'000	Year ended 30 September 2007 £'000
Operating profit	8,755	7,595
Adjustments for-		
Depreciation of property, plant and equipment	358	243
Amortisation of intangible assets	1,637	416
Employee share scheme charges	303	220
Loss / (profit) on sale of tangible assets	3	(7)
Profit on sale of investment	-	(120)
Movements in working capital;-		
Decrease in property deposits	51	-
(Increase) / decrease in inventories	(113)	9
Increase in trade and other receivables	(201)	(352)
(Decrease) / increase in trade and other payables	(458)	780
Cash generated from operations	10,335	8,784

10. Reconciliation to adjusted performance

	30 September 2008 £'000	30 September 2007 £'000
Profit before tax	8,901	7,953
Amortisation of purchased customer contracts and other intangibles	1,375	257
Less profit on sale of investment	-	(120)
Adjusted profit before tax	10,276	8,090
Less taxation per profit and loss account	(2,402)	(1,763)
Less taxation on adjustments	(385)	(38)
Less exceptional tax deduction on exercise of AN share options	(27)	(713)
Adjusted profit after tax	7,462	5,576

Adjusted earnings per share are calculated on the above adjusted profits.

This analysis is provided as the Group considers it provides a truer reflection of the underlying performance of the business, and is common practice in the investment analyst community.

11. Adoption of IFRS

Group

Reconciliation of equity at 1 October 2006

	Notes	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
ASSETS				
Non-current assets				
Intangible assets	a)	6,107	409	6,516
Tangible assets	b)	2,353	(409)	1,944
Deferred tax asset	c)	-	640	640
Assets held for re-sale		-	-	-
Property deposits	d)	-	63	63
		8,460	703	9,163
Current assets				
Deferred tax asset	e)	137	(137)	-
Inventories		73	-	73
Trade and other receivables	d)	10,470	(63)	10,407
Cash and cash equivalents		8,488	-	8,488
		19,168	(200)	18,968
Total assets		27,628	503	28,131
EQUITY AND LIABILITIES				
Equity				
Called up share capital		57	-	57
Share premium		4,116	-	4,116
Merger reserve		934	-	934
Retained earnings	g)	7,005	503	7,508
		12,112	503	12,615
Minority interest		-	-	-
		12,112	503	12,615
Current liabilities				
Borrowings		37	-	37
Deferred consideration		-	-	-
Trade and other payables		14,464	-	14,464
		14,501	-	14,501
Non-current liabilities				
Trade and other payables		-	-	-
Borrowings		1,015	-	1,015
Deferred tax liabilities		-	-	-
		1,015	-	1,015
Total liabilities		15,516	-	15,516
Total equity and liabilities		27,628	503	28,131

Group

Reconciliation of equity at 1 October 2007

	Notes	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
ASSETS				
Non-current assets				
Intangible assets	a)	17,276	2,707	19,983
Tangible assets	b)	3,923	(682)	3,241
Deferred tax asset	c)	-	679	679
Assets held for re-sale		-	-	-
Property deposits	d)	-	63	63
		21,199	2,767	23,966
Current assets				
Deferred tax asset	e)	548	(548)	-
Inventories		251	-	251
Trade and other receivables	d)	14,199	(63)	14,136
Cash and cash equivalents		3,422	-	3,422
		18,420	(611)	17,809
Total assets		39,619	2,156	41,775
EQUITY AND LIABILITIES				
Equity				
Called up share capital		60	-	60
Share premium		4,577	-	4,577
Merger reserve	f)	1,833	72	1,905
Retained earnings	g)	11,776	441	12,217
		18,246	513	18,759
Minority interest		7	-	7
		18,253	513	18,766
Current liabilities				
Borrowings		33	-	33
Deferred consideration		-	-	-
Trade and other payables		19,340	-	19,340
		19,373	-	19,373
Non-current liabilities				
Trade and other payables		-	-	-
Borrowings		1,546	-	1,546
Deferred consideration		447	-	447
Deferred tax liabilities	h)	-	1,643	1,643
		1,993	1,643	3,636
Total liabilities		21,366	1,643	23,009
Total equity and liabilities		39,619	2,156	41,775

Explanations of transition impacts to IFRS at 1 October 2006 and 1 October 2007.

	1 October 2006 £'000	1 October 2007 £'000
a). Intangibles		
i). See note below.	-	468
ii). See note below.	-	(86)
iii). See note below.	-	1,643
iv). See note below.	409	682
	<u>409</u>	<u>2,707</u>

i). IFRS 3 - Business Combinations; IAS 38 - Intangible Assets;
IFRS 3 applies to accounting for business combinations for which the acquisition date is on or after 1 October 2006. The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place prior to 1 October 2006. As a result in the opening balance sheet, positive goodwill arising from previous business combinations and other intangibles remain, (£6.1m) as stated under UK GAAP at 1 October 2006.

The transitional provisions of IFRS 3 have required the Group to carry forward the UK GAAP net book value of positive goodwill as deemed cost under IFRS. The adoption of IFRS 3 has resulted in the Group ceasing annual goodwill amortisation from 1 October 2006. As a result, the UK GAAP amortisation charge of £468,000 for positive goodwill has been removed from the full year for 2007.

ii). Amortisation of brand name and supplier contracts following the acquisition of Echo Communications Limited.

iii). Deferred tax recognised on brand name and supplier contracts following the acquisition of Echo Communications

iv). Reclassification of computer software from tangible to intangible assets.

b). Tangible fixed assets	<u>(409)</u>	<u>(682)</u>
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Computer software has been reclassified to intangible assets per note a). iv). above.

c). Non-current deferred tax asset	<u>640</u>	<u>679</u>
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The deferred tax assets have been reclassified from current to non-current assets.

d). Property deposits	<u>63</u>	<u>63</u>
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The property deposits have been reclassified from current to non-current assets.

e). Current deferred tax asset		
i). Deferred tax reclassified per note c). above.	(640)	(679)
ii). See note below.	503	131
	<u>(137)</u>	<u>(548)</u>

ii). Deferred tax on anticipated additional gain, over and above IFRS2 costs already booked for employee share options. Credit taken to reserves, rather than through the current year tax charge.

f). Merger reserve	<u>-</u>	<u>72</u>
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The Group has ceased annual amortisation of the merger reserve from 1 October 2006.

g). Retained earnings		
Per note a). i). above.	-	468
Per note a). ii). above.	-	(86)
Per note e). ii). above.	503	131
Per note f). above.	-	(72)
	<u>503</u>	<u>441</u>

h). **Deferred tax liability** - 1,643

Deferred tax recognised on intangible assets per note a). iii). above.

Group

Reconciliation of profit for the year ended 30 September 2007

	Notes	UK GAAP £'000	Effects of transition to IFRS £'000	IFRS £'000
Revenue:		72,083	-	72,083
Cost of sales		(46,853)	-	(46,853)
Gross profit		25,230	-	25,230
Operating costs	a)	(18,017)	382	(17,635)
Operating profit:		7,213	382	7,595
Total operating profit – analysed:				
Adjusted operating profit		7,952	-	7,952
Profit on part disposal of subsidiary operations		120	-	120
Operating exceptional item in respect of restructuring costs of acquired operations		(220)	-	(220)
Amortisation of intangible fixed assets		(639)	382	(257)
Total operating profit		7,213	382	7,595
Finance income		418	-	418
Finance costs		(60)	-	(60)
Profit on ordinary activities before taxation		7,571	382	7,953
Taxation on profit on ordinary activities		(1,763)	-	(1,763)
Profit on ordinary activities after taxation		5,808	382	6,190

a) Per note a). i). and ii). on previous page.