

22 June 2010  
**Daisy Group plc**



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**Audited preliminary results for the 15 months to 31 March 2010**

Daisy Group plc ("Daisy" or the "Company"), a leading provider of unified communications to the SME and mid-market sector, announces its audited preliminary results for the 15 month period to 31 March 2010.

**Key financial and business highlights**

- Transformation from a niche wireless broadband business to a leading UK provider of unified communications
- Revenue for the 15 month period of £134.4m
- Adjusted EBITDA\* of £11.0m
- Positive underlying operating cash flow\*\* of £8.2m
- Adjusted earnings per share\*\*\* of 4.10p
- Low net borrowings of £8.3m at 31 March 2010
- Seven acquisitions completed during the period
- Integration of acquisitions running to plan
- £75.0m bank loan facility secured for further acquisitions post period end
- £12.5m raised through successful divestment of the WiMAX business post period end

\* operating loss from continuing operations before amortisation, depreciation, impairment of fixed assets, net exceptional operating costs and share based payment charges.

\*\* after adjusting for exceptional cash costs of £9.8m.

\*\*\* adjusted EPS is basic EPS adjusted for the after tax effect of amortisation of acquisition related intangible assets, impairment of fixed assets, share based payments costs and net exceptional operating costs.

Matthew Riley, CEO of Daisy Group, commented:

"These results demonstrate the progress we have made towards our aim of becoming one of the largest UK providers of unified communications services and solutions to the SME and mid-market sector. We have integrated acquired businesses on schedule, providing significant cost savings which will be reflected in our results for the year to 31 March 2011. We have in place the platform, the systems, the people and the product set to allow us to continue to grow organically and by further acquisitions.

"The recently completed bank funding provides the Group with the capability to pursue future acquisitions and we look forward to the coming financial year with confidence."

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## **CHAIRMAN'S STATEMENT**

The last 15 months has seen a complete transformation of the business from a niche wireless broadband business to a leading UK provider of unified communications to the SME and mid-market sector. The transformation started with the acquisitions of Daisy Communications Limited ("Daisy") and Vialtus Solutions Limited ("Vialtus") on 21 July 2009 which initiated a consolidation strategy in the fragmented SME and mid-market telecommunications sector. By the 2010 period end a further five acquisitions had been completed by Daisy Group plc ("the Company", together with its subsidiaries, "the Group"), formerly Freedom4 Group plc.

Revenue, adjusted EBITDA and operating losses for the 15 months ended 31 March 2010 were £134.4 million, £11.0 million and £17.5 million, respectively. Although the statutory period for these results is 15 months, the trading period commenced on 21 July 2009; before that date, continuing operations consisted of plc running costs only. The results for the wireless broadband business for the 15 month period are included in discontinued operations.

### **STRATEGIC TRANSACTIONS**

On 1 July 2009 the Company announced that, subject to shareholder approval, it had agreed to acquire the entire issued share capital of both Daisy and Vialtus Holdings Limited together with the shares in Vialtus not held by Vialtus Holdings Limited. The directors had carried out a detailed review of the UK business telecommunications market and had concluded that the fragmentation in the SME and mid-market sector, together with depressed valuations in both quoted and non-quoted operators, presented a significant consolidation opportunity for the Group. Daisy and Vialtus were to form the cornerstone of this consolidation.

On 20 July 2009, the Company restructured its share capital by consolidating every 20 shares into one. On 21 July 2009 the Company issued 103,750,000 new shares at a placing price of 80 pence per share, raising £83.0 million (before expenses). At the same time, the share capital of Daisy was acquired for £30.5 million in cash and the £54.5 million issue of 63,750,000 new fully paid shares in the Company. The Vialtus acquisition comprised a payment of £13.0 million in cash and the £31.0 million issue of 36,250,000 new fully paid shares in the Company.

The acquisition of Daisy was crucial to the Company's consolidation strategy. Daisy has an integrated customer relationship management ("CRM") and billing platform which has since laid the foundations for the delivery of synergies from further sector consolidating acquisitions. In the period from 3 August 2009 to 31 March 2010, the Group acquired the trading assets of both AT Communications Group plc ("ATC") and Eurotel, the telecommunications division of Redstone plc ("Redstone"), and the entire issued capital of each of Managed Communications Limited ("MCL") and BNS Telecom Group plc ("BNS") for a combined consideration of £56.6 million (inclusive of associated costs).

On 22 April 2010, the Company acquired the entire issued share capital of Cole Robert & Co Limited ("CRC") for a total consideration of £2.1 million, of which £0.5 million is deferred. CRC is a wholesale telecoms and internet service provider.

On 10 June 2010, the Group acquired the entire issued share capital of Fone Logistics Limited ("FLL") for a cash consideration of £3.6 million. FLL is a provider of mobile handsets and airtime to the SME market through an independent dealer channel.

On 17 June 2010, the Group announced the disposal of its WiMAX spectrum licences for cash consideration of £12.5 million. This transaction ends the Group's interest in WiMAX technology and completes the change in strategy initiated in July 2009.

### **FUNDING**

Post period end, on 4 June 2010, the Company announced that it had entered into a new £75.0 million banking facility. The facility is provided by Lloyds TSB plc, Yorkshire Bank and HSBC Bank plc, with each bank lending £25.0 million. This new facility provides the Company with finance to support its acquisition strategy as well as providing additional working capital. The board will continue its prudent approach to debt levels and will operate within a net debt to adjusted EBITDA ratio of 2.5.

## **CHAIRMAN'S STATEMENT (continued)**

### **FINANCIAL PERFORMANCE**

It is difficult to compare reported results for 2010 and 2008 as a result of the significant acquisitions, disposals and restructuring which has occurred during these periods.

Revenue for the Group from continuing operations, which was all earned in the period between 21 July 2009 and 31 March 2010, was £134.4 million. The Group's adjusted EBITDA and operating loss were £11.0 million and £17.5 million respectively. Net exceptional costs of £5.8 million comprise rationalisation and redundancy costs incurred as part of the Group's business integration programme and set-up costs in respect of businesses purchased out of administration. Exceptional costs are stated net of negative goodwill of £5.8 million which principally arose on the acquisitions of the former trading assets of ATC and Eurotel, purchased from the administrators of these businesses.

At 31 March 2010, the Group had cash and cash equivalents of £20.0 million resulting in a net debt position of £8.3 million.

The underlying positive operating cashflow (excluding exceptional cash costs of £9.8 million) for the period was £8.2 million and is indicative of the Group's ability to convert adjusted EBITDA to cash.

### **OPERATIONAL REVIEW**

In conjunction with its acquisition activity, the Group has a strong focus on integration. Daisy has a set of operational and financial systems whose ability to flex and scale enable them to meet the demands created by acquisitive growth. As a result, the Group has successfully integrated the acquired businesses onto its established platforms allowing early cost savings to be achieved.

The Group provides a comprehensive suite of products to its customers in four main product areas comprising network services, data solutions (broadband, leased lines, bonded digital subscriber line ("DSL"), data hosting), system services (maintenance, engineering, equipment), and mobile solutions. It also operates two further channels to market through mobile distribution and wholesale.

The goal is to provide the entire portfolio of services from a single platform with a single customer bill. During the review period the Group has made very solid progress towards achieving this goal. In particular, all network services business, with the exception of the former Vialtus activity (where there is a high concentration of data provision), is now conducted on the Daisy CRM and billing platform. The system services trade has been consolidated into a single trading division, allowing the rationalisation of the engineering cost base and providing an integrated service delivery capability.

The mobile solutions business is also now operating from a single division, with a longer term aim to also migrate those services to the Daisy CRM and billing platform.

The migration of acquired businesses to a common platform has enabled the Group to close operations at Halifax and London, concentrating activity on its core centres at Nelson, Heathrow and Harlow. To facilitate this migration our main corporate centre at Nelson, Lancashire, has recently been extended into a new headquarters building providing accommodation for up to an additional 300 employees.

During the period, the board decided that, as a consequence of the radical reshaping of the Group, the wireless broadband business should no longer form part of the Group's ongoing strategy.

### **BOARD CHANGES**

During the period there were a number of changes to the composition of the board. Matthew Riley was appointed chief executive officer on 21 July 2009. Ian McKenzie and Laurence Blackall joined the board as non-executive directors on the same date. Ian Butcher was appointed a non-executive director on 3 August 2009.

## **CHAIRMAN'S STATEMENT (continued)**

On 31 August 2009, following nine years of service with the Group, Stewart Porter stepped down from his role as chief financial officer and company secretary. Stewart was replaced by Anthony Riley, former chief financial officer of Daisy.

On 27 October 2009, David McGlennon was appointed as general counsel and took on the responsibility of company secretary.

On 7 December 2009, Mike Read, chief executive officer of Freedom4 Group plc prior to the acquisition of Daisy and a member of the main board since 2003, stepped down from his position following nine years with the Group.

I would like again to thank Stewart and Mike for all their work on behalf of the shareholders and the board.

## **SUMMARY AND OUTLOOK**

I am delighted to be able to report such striking progress towards our aim of becoming one of the largest UK providers of unified communications services and solutions to the SME and mid-market sector.

The integration of acquired businesses has proceeded on schedule providing significant cost savings which will be reflected in our results for the year to 31 March 2011.

The market environment remains difficult for smaller, sub-scale, operators and this will provide further acquisition opportunities for the Group during the current financial year.

The recently completed bank funding provides the Group with the capability to pursue those opportunities which will add value to the business, whilst not compromising the Group's strong liquidity position.

**PETER DUBENS**  
**Executive Chairman**  
**21 June 2010**

## **CHIEF EXECUTIVE'S REVIEW**

### **INTRODUCTION**

As outlined in the chairman's statement, the period under review has been one of significant positive change. During this period the Group has made great strides towards its aim of being one of the largest providers of unified communications services in the UK to the SME and mid-market sector.

The management team has successfully implemented its acquisition and integration strategy which, combined with a strong product set, has meant that we have delivered on our financial targets for the reporting period and laid solid foundations for future earnings growth.

Revenue of £134.4 million and adjusted EBITDA of £11.0 million have been generated in the reported 15 month period.

Against a difficult economic backdrop and through significant corporate change, our performance is very much a reflection of the effort, commitment and tenacity of all employees from across the Group and I would like to thank them all for the excellent teamwork that has allowed us to make such significant progress over this trading period.

### **GROWTH AND DEVELOPMENT**

Our primary market is the SME and mid-market sector. When the enlarged Group was formed in 2009, we knew the fragmented nature of the UK SME and mid-market sector presented significant opportunities for consolidation and the opportunity to become the clear choice for business in this target market.

From the announcement of the transformation of the business on 1 July 2009 to the period end, the Group has acquired seven businesses for a combined consideration of £190.5 million (inclusive of associated costs). Under the guidance of an experienced in-house team, bolstered over the last twelve months with some key appointments, the business has developed a successful blueprint for the identification, completion and integration of acquisitions. This process has allowed us to enhance existing product areas and embark on supplementing the business' portfolio with complementary products and offerings, whilst driving significant synergies.

The purchase of Daisy Communications Limited ("Daisy") gave the Group a strong presence in network services (lines, calls and other voice products), broadband and mobile as well as a flexible and scalable CRM and billing platform.

The acquisition of Vialtus Solutions Limited delivered a sizeable capability in data solutions (data hosting, broadband and leased lines) and access to higher end SME and mid-market sector customers.

The subsequent acquisitions of the trading assets of AT Communications Group plc and Eurotel at the beginning of August 2009 provided the Group with complementary system services businesses, further network services volumes and, in the case of Eurotel, a mobile customer base.

The purchase of the telecommunications division of Redstone plc at the end of August 2009 brought a significant increase in network services activity, primarily focused on the higher end SME and mid-market sector, together with additional mobile solutions capability and a separate mobile distribution business.

The integration of these businesses was completed to plan, and delivered annualised run rate synergies of £17.0 million by the end of this reported financial period. The full impact of these synergies will be seen in the current financial year.

Managed Communications Limited ("MCL") was acquired in February 2010 and provides us with a bonded DSL product which we believe is ideally suited to our customer base. The purchase of BNS Telecom Group plc, also completed in February 2010, has provided further network services volumes, and additional skilled engineers to support our system services activity and a new capability in IP technology.

## CHIEF EXECUTIVE'S REVIEW (continued)

The Group now provides a comprehensive suite of products to its 70,000-strong customer base, in four main product areas comprising network services, data solutions (data hosting, broadband, leased lines and bonded DSL), mobile solutions and system services (maintenance, engineering and equipment) throughout the UK. Additionally, the Group also operates two further channels to market. These are wholesale (which provides network services, data solutions and billing services to other resellers) and mobile distribution.

### DIVISIONAL REPORTING

Since 31 March 2010 we have changed our internal reporting processes and hence our statutory business segments to align with our strategic objectives and the four main product areas described above. We have disclosed supplementary financial information including revenue and gross margin in this revised format within the segmental information note in the preliminary financial statements.

We have provided further details of the content and performance, including the key performance indicators (KPIs), for these segments below. The KPIs are stated as at 31 March 2010:

#### Network Services

	<i><b>15 months to 31 March 2010</b></i>
Revenue (£ million)	62.6
Gross profit (£ million)	26.6
Gross margin (%)	42.5%
<b>KPIs</b>	
Monthly ARPU (average revenue per user)	£163
Number of customers (users)	56,000
Number of lines/channels	263,000

Revenue from the network services division comprises recurring calls, lines and inbound revenues together with installation charges and other one off items.

Acquisitions have seen this division grow significantly during the period, whilst calls gross margins have improved as a result of the improved purchasing power resulting from greater volumes and the consolidation of call traffic onto selected suppliers.

At 31 March 2010, 60% of network services customers provided the Group with both lines and calls revenue.

#### Data Solutions

	<i><b>15 months to 31 March 2010</b></i>
Broadband revenue (£ million)	8.4
Leased lines revenue (£ million)	9.9
Hosting revenue (£ million)	6.0
Total revenue (£ million)	24.3
Gross profit (£ million)	11.8
Gross margin (%)	48.6%
<b>KPIs</b>	
Monthly broadband ARPU	£82
Number of broadband customers (users)	16,000
Hosting – average monthly revenue per rack	£2,216
Hosting – data centre utilisation	43%

## CHIEF EXECUTIVE'S REVIEW (continued)

The data solutions division generates revenue from broadband and bonded DSL (digital subscriber lines), leased lines and data hosting.

At 31 March 2010 the Group had in excess of 35,000 broadband connections and consolidation plans are ongoing, with the aim to reduce the number of broadband suppliers to a maximum of three by the next financial year end.

The bonded DSL product (included in broadband revenue) is provided through our MCL business and we believe that this product is ideally suited to our customer base, providing a realistic cheaper alternative to leased lines for smaller businesses.

Data hosting is provided from the Group's two data centres at Serverbank, Manchester and Harbour Exchange, London. The services provided consist of managed services and co-location.

### Mobile Solutions

	<b>15 months to 31 March 2010</b>
Revenue (£ million)	10.7
Gross profit (£ million)	2.1
Gross margin (%)	19.6%
<b>KPIs</b>	
Monthly ARPU	£49
Number of connections (users)	45,300
Number of customers	6,000

The mobile solutions division generates revenue from a mix of voice, data and application products.

The Group has service provider agreements in place with O2 and Vodafone. Customers are signed onto Daisy contracts with customer management and billing both provided by the Group.

### System Services

	<b>15 months to 31 March 2010</b>
Maintenance revenue (£ million)	4.5
Engineering revenue (£ million)	2.6
Equipment revenue (£ million)	4.4
Total revenue (£ million)	11.5
Gross profit (£ million)	6.3
Gross margin (%)	54.8%
<b>KPIs</b>	
Monthly maintenance ARPU	£89
Number of maintenance customers (users)	7,000

The system services division generates revenue from maintenance contracts, engineering works and equipment sales. It sells and services a wide range of telephone systems including Mitel, Avaya, Samsung, NEC and LG. Additionally, following the acquisition of BNS Telecom, this division provides a wide portfolio of VOIP (voice-over internet protocol) products ranging from a fully hosted IP centric solution through to IP PBX (internet protocol private branch exchange) equipment for SME customers.

Customers of this division are either end users or other corporate customers outsourcing engineering activity to supplement their own engineering functions.

## CHIEF EXECUTIVE'S REVIEW (continued)

### Wholesale

	<b>15 months to 31 March 2010</b>
Revenue (£ million)	13.6
Gross profit (£ million)	2.6
Gross margin (%)	19.1%
<b>KPIs</b>	
Monthly ARPU	£6,400
Number of active resellers	240

The wholesale division provides network services, data solutions and managed billing services to other resellers.

These supply arrangements exist as a result of the Group's ability to obtain better pricing from network carriers and internet service providers combined with the provision of user friendly portals which facilitate efficient provisioning for the resellers.

### Mobile Distribution

	<b>15 months to 31 March 2010</b>
Revenue (£ million)	11.6
Gross profit (£ million)	2.2
Gross margin (%)	19.0%
<b>KPIs</b>	
Number of connections under management	65,000
Number of active dealers	250

The mobile distribution division differs from the mobile solutions division in that revenues are generated predominantly from commissions for making connections on behalf of O2, Vodafone and Orange.

## MARKET OPPORTUNITY

We understand that businesses do not want to deal with multiple suppliers. We believe that by providing a unified product set, a single point of contact and, ultimately, a single bill solution we can provide an 'end to end' customer experience that, combined with a focused sales effort, will enable us to increase the impact we have already had on this marketplace.

We believe that the key to future growth, other than from acquisitions, will be our ability to cross-sell products and services into this customer base.

Set out below is the current breakdown of products per customer which will be used as a measure of the Group's success in cross-selling in future periods. For the purpose of the table, network services has been split between fixed line calls and line rental.

### Products Per Customer

<b>Number of products</b>	<b>%</b>
1	46%
2	39%
3	13%
4	2%

This measure shows that customers had, on average, 1.7 products at 31 March 2010. As at 31 March 2010 the customer base had direct debit penetration of 69% and e-billing penetration of 49%.

## **CHIEF EXECUTIVE'S REVIEW (continued)**

### **PREPARING FOR FURTHER GROWTH**

Key appointments across the business have provided the capability and scale for further growth, both through acquisition and organic means, with all areas of the business bolstered over the trading period and I believe that we now have a team in place to meet the challenges of 2010/11.

The appointments of David McGlennon (general counsel and company secretary), Steve Smith (corporate development director) and Gareth Kirkwood (chief operating officer) complete an experienced executive team, fully proficient in leading the Group towards its stated ambition of being the main consolidator in the sector and a leading provider of unified communications to the SME and mid-market business customer.

In addition to the strengthening of the team, we have also expanded our corporate centre premises at Nelson, Lancashire. The commencement of migration of network systems activity to a common platform and the centralisation of resource at the Group's main office in Nelson resulted in extensive expansion, with the creation of an extra 15,000 sq.ft. providing accommodation for up to an additional 300 employees.

The Group has made good progress in the migration of its businesses onto common provisioning, billing and CRM platforms. This migration will continue in 2010 and 2011, with the longer term aim of the Group to migrate all services to the Daisy CRM and billing platform. This will deliver further gains in efficiencies in terms of staff training and operations, and will provide the ability to cross-sell all products from the Daisy portfolio.

### **DISPOSAL OF NON-CORE BUSINESSES**

During the period, the board decided that, as a consequence of the radical reshaping of the Group, the WiMAX business (Freedom4 Limited) and the WiFi business (Freedom4 WiFi Limited) no longer formed part of the ongoing strategy.

On 26 February 2010, the WiFi business was sold to its management team for a nominal consideration.

On 17 June 2010, the Group announced that it had disposed of its WiMAX spectrum licences to UK Broadband Limited, part of the PCCW Group, for a cash consideration of £12.5 million. The WiMAX business will now be closed.

Results of these businesses have been included within discontinued operations for this reported period.

### **SUMMARY**

We have in place the platform, the systems, the people and the product set to allow us to continue to grow acquisitively and to have an opportunity to build through organic growth.

We look forward to the coming financial year with confidence and believe that we are well placed to satisfy the future unified communications demands of the SME and mid-market sector.

**MATTHEW RILEY**  
**Chief Executive Officer**  
**21 June 2010**

## **FINANCIAL REVIEW**

### **CONTINUING OPERATIONS**

It is difficult to compare reported results for 2010 and 2008 as a result of the significant acquisitions, disposals and restructuring which has occurred during these periods.

As a result of its intended disposal, the wireless broadband business, Freedom4 Limited, which was previously accounted for as a joint venture, has been classified as held for sale within discontinued operations. Consequently, the only item reported as continuing operations in the year ended 31 December 2008 was the costs of running the Group's holding company.

The entire Group's continuing revenue recognised in the current period occurred between 21 July 2009 and 31 March 2010.

The revenue and adjusted EBITDA (operating loss before amortisation, depreciation, impairment of fixed assets, net exceptional operating costs and share based payments costs) from continuing operations were £134.4 million and £11.0 million respectively (year ended 31 December 2008: £nil and £(3.4) million respectively).

The operating loss from continuing operations was £17.5 million compared to £5.0 million for the year ended 31 December 2008.

Amortisation of intangible assets in the period was £20.5 million (year ended 31 December 2008: £nil) and relates primarily to the customer relationships acquired from Daisy, Vialtus, ATC, Eurotel, Redstone, BNS and MCL. These customer relationships have been valued based on expected future discounted cash flows and are being amortised over periods from 3 to 7 years.

Depreciation for the period totalled £1.9 million (year ended 31 December 2008: £nil) and consists largely of the charges associated with the assets acquired as part of the Vialtus and Daisy transactions.

Net exceptional operating costs were £5.8 million (year ended 31 December 2008: £nil) and comprised employee related restructuring costs of £5.5 million, other restructuring costs of £6.1 million and the release to the income statement of negative goodwill of £5.8 million. The employee related restructuring costs represent rationalisation and redundancy costs incurred as part of the Group's change programme and the integration of acquired businesses into the Group's core operations. The other restructuring costs and negative goodwill principally relate to the businesses purchased out of administration.

Net finance income was £1.3 million (year ended 31 December 2008: £3.5 million). The majority of this income was associated with the £17.5 million loan note arising on the sale of the Group's hosting and network division in 2008. The loan note was fully repaid during the current financial period.

The Group reported a net loss before tax from continuing operations for the period of £16.2 million (year ended 31 December 2008: £1.5 million).

Basic and diluted loss per share from continuing operations for the period was 6.82p (year ended 31 December 2008: 2.09p). Basic adjusted earnings per share excluding the after tax effect of amortisation of acquisition related intangible assets, impairment of fixed assets, share based payments costs and net exceptional operating costs was 4.10p (2008: 0.12p).

The board is not proposing the payment of a final dividend (year ended 31 December 2008: £nil).

### **DISCONTINUED OPERATIONS**

Discontinued operations in 2010 represent the results of the wireless division which comprises Freedom4 WiFi Limited (the WiFi business) and Freedom4 Limited (the WiMAX business). Given the new focus of the Group, these operations were no longer considered core to the Group's future operations.

## **FINANCIAL REVIEW (continued)**

On 26 February 2010, the WiFi business was sold to management for a nominal cash consideration resulting in a loss on disposal of £0.1 million.

On 24 December 2009 and 6 January 2010, the Group agreed to acquire both Intel Capital Corporation's and Intel Capital (Cayman) Corporation's investment in the WiMAX business for a combined consideration of \$2, resulting in an increase in the Group's shareholding to 97.2% (2008: 52.4%). As the business is not intended to form part of the continuing operations of the Group, it has not been consolidated, and the increase in the investment has been valued at \$2 in accordance with IFRS 5. The Group's existing share in the WiMAX business has a carrying value of £4.9 million, representing the value of the joint venture on 30 September 2009, the date on which it became classified as 'held for sale' together with additional funding up to 31 March 2010.

On 17 June 2010 the Group announced that it had disposed of its WiMAX spectrum licences for a cash consideration of £12.5 million.

The WiFi business contributed a loss after tax of £0.3 million in the period (year ended 31 December 2008: £0.2 million). The Group's share of the loss of the WiMAX joint venture was £2.5 million (year ended 31 December 2008: £9.6 million).

In 2008, the sale of the hosting and network services division gave rise to a profit of £48.8 million, which together with residual income of £1.1 million associated with the sale of the broadband and voice division in 2007 and the loss in 2008 from the wireless division of £9.1 million resulted in a profit from discontinued operations of £40.8 million for the year ended 31 December 2008.

## **BALANCE SHEET**

Net assets for the Group at 31 March 2010 were £179.3 million, compared to £27.7 million at 31 December 2008, reflecting the injection of equity funding and the subsequent acquisitions during the period.

Intangible assets acquired were £187.0 million (31 December 2008: £0.1 million) and consist predominantly of acquired customer relationships. Goodwill arising on acquisitions was £62.3 million (31 December 2008: £nil). The deferred tax asset of £12.0 million (31 December 2008: £nil) primarily relates to tax losses and fixed asset timing differences for Vialtus, which are expected to be utilised against future profits.

Trade and other receivables were £39.6 million (31 December 2008: £19.0 million) and comprised trade receivables of £19.1 million (31 December 2008: £0.3 million) and prepayments and other receivables of £20.5 million (31 December 2008: £18.7 million).

Cash in the balance sheet at the period end was £20.0 million (31 December 2008: £4.6 million).

Disposal groups classified as held for sale of £4.9 million (31 December 2008: £nil) represented the carrying value of the Group's interest in the remaining wireless business, WiMAX.

Trade and other payables totalled £63.7 million (31 December 2008: £1.2 million) and consisted of trade creditors of £27.4 million (31 December 2008: £0.2 million), accruals and deferred income of £30.7 million (31 December 2008: £1.0 million) and other creditors of £5.6 million (31 December 2008: £nil).

Total borrowings were £28.3 million (31 December 2008: £nil), primarily relating to bank loans and overdrafts, £27.2 million of which was repayable within twelve months of the period end date. Overall net debt was £8.3 million (31 December 2008: net cash of £4.6 million).

In June 2010, the Group entered into a new £75 million three-year revolving borrowing facility. This new facility replaces the Group's previous finance arrangements, providing adequate funding to meet the Group's current cash flow forecast requirements and to finance further acquisitions.

## **FINANCIAL REVIEW (continued)**

Other non-current liabilities were £4.8 million (31 December 2008: £nil) which included the contingent earn-out consideration of £2.6 million payable to the former owners of MCL. The calculation of this consideration is to be based on the earnings generated by the business during a 12 month post-completion earn-out period.

Provisions of £2.9 million (31 December 2008: £nil) were held to cover onerous lease liabilities within the Vialtus business. The substantial deferred tax liability of £34.8 million (31 December 2008: £nil) arose from the IFRS acquisition accounting treatment applied to customer relationship intangible asset valuations. This liability will unwind over future periods as these intangible assets are amortised.

### **CASH FLOW STATEMENT**

The significant items disclosed in the cash flow statement for the period ended 31 March 2010 include the cash outflow of £90.5 million for current period acquisitions. These acquisitions were part-funded through the issue of ordinary shares which generated a cash inflow, after deducting transaction costs, of £78.5 million.

The loan note of £17.5 million which arose on the sale of the Group's hosting and network division in 2008 was fully repaid during the period.

The Group generated a cash outflow from operations of £1.6 million (year ended 31 December 2008: inflow of £0.1 million) from its continuing operations which includes exceptional cash costs of £9.8 million.

The underlying positive operating cashflow (excluding exceptional cash costs of £9.8 million) for the period was £8.2 million and is indicative of the Group's ability to convert adjusted EDITDA to cash.

**ANTHONY RILEY**  
**Chief Financial Officer**  
**21 June 2010**

## CONSOLIDATED INCOME STATEMENT

		<b>15 month period ended 31 March 2010</b>	<i>Restated year ended 31 December 2008</i>
	<i>Note</i>	<b>£'000</b>	<b>£'000</b>
<b>Revenue</b>	2	<b>134,355</b>	—
Cost of sales		<b>(82,779)</b>	—
<b>Gross profit</b>	2	<b>51,576</b>	—
Operating costs		<b>(69,099)</b>	(5,019)
<b>Operating loss</b>		<b>(17,523)</b>	(5,019)
<b>Adjusted EBITDA</b>		<b>10,975</b>	(3,438)
Amortisation of intangibles		<b>(20,506)</b>	—
Depreciation		<b>(1,945)</b>	(1)
Impairment of property, plant and equipment		—	(315)
Net exceptional operating costs	5	<b>(5,836)</b>	—
Share based payment costs		<b>(211)</b>	(1,265)
<b>Operating loss</b>		<b>(17,523)</b>	(5,019)
Finance income		<b>2,117</b>	3,523
Finance costs		<b>(771)</b>	—
<b>Net finance income</b>		<b>1,346</b>	3,523
<b>Loss before tax</b>		<b>(16,177)</b>	(1,496)
Income tax credit		<b>5,004</b>	13
<b>Loss from continuing operations</b>		<b>(11,173)</b>	(1,483)
<b>(Loss)/profit from discontinued operations</b>		<b>(2,855)</b>	40,838
<b>(Loss)/profit after tax</b>		<b>(14,028)</b>	39,355
<b>Attributable to:</b>			
Equity shareholders of the parent		<b>(14,178)</b>	39,365
Minority interests		<b>150</b>	(10)
<b>(Loss)/profit after tax</b>		<b>(14,028)</b>	39,355
<b>(Loss)/earnings per share (pence):</b>			
<b>Basic (loss)/earnings per share:</b>			
From continuing operations		<b>(6.82)</b>	(2.09)
From discontinued operations		<b>(1.72)</b>	57.53
	6	<b>(8.54)</b>	55.44
<b>Diluted (loss)/earnings per share:</b>			
From continuing operations		<b>(6.82)</b>	(2.09)
From discontinued operations		<b>(1.72)</b>	57.53
	6	<b>(8.54)</b>	55.44

The Group has not presented a separate consolidated statement of comprehensive income as there are no further items of comprehensive income other than as presented in the consolidated income statement above.

The comparative figures have been restated to reflect the impact of current period discontinued operations.

The comparative figures for earnings per share have been restated to reflect the 20:1 share consolidation that occurred in July 2009.

## CONSOLIDATED BALANCE SHEET

		<b>31 March</b>	<i>31 December</i>
		<b>2010</b>	<i>2008</i>
	<i>Note</i>	<b>£'000</b>	<i>£'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	7	62,285	—
Other intangible assets	8	167,968	64
Property, plant and equipment		6,294	32
Deferred tax asset		11,992	18
Investment in joint venture		—	5,142
		<b>248,539</b>	<b>5,256</b>
<b>Current assets</b>			
Inventories		1,288	3
Trade and other receivables		39,631	18,996
Cash and cash equivalents		20,034	4,595
		<b>60,953</b>	<b>23,594</b>
Disposal groups classified as held for sale		4,891	—
		<b>65,844</b>	<b>23,594</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		(63,705)	(1,178)
Current tax liability		(611)	—
Borrowings		(27,871)	—
Provisions		(997)	—
		<b>(93,184)</b>	<b>(1,178)</b>
<b>Net current (liabilities)/assets</b>		<b>(27,340)</b>	<b>22,416</b>
<b>Non-current liabilities</b>			
Borrowings		(451)	—
Provisions		(1,905)	—
Deferred tax liability		(34,779)	(18)
Other non-current liabilities		(4,763)	—
		<b>(41,898)</b>	<b>(18)</b>
<b>NET ASSETS</b>			
<b>Equity attributable to the equity holders of the parent</b>			
Share capital		5,261	1,076
Share premium reserve		86,743	8,286
Share merger reserve		83,500	—
Other reserves		1,490	753
Retained earnings		1,563	17,539
		<b>178,557</b>	<b>27,654</b>
Minority interests		744	—
<b>TOTAL EQUITY</b>		<b>179,301</b>	<b>27,654</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'000	Share premium reserve £'000	Share merger reserve £'000	Other reserves £'000	Retained earnings £'000	Attributable to equity holders of the parent £'000	Minority interests £'000	Total equity £'000
At 1 January 2008	24,092	96,848	8,119	25	6,961	136,045	—	136,045
Capital reduction scheme	(21,683)	(96,848)	(2,309)	—	120,840	—	—	—
Tender offer	(1,490)	—	—	1,490	(154,788)	(154,788)	—	(154,788)
Capital reduction and tender offer costs	—	—	—	—	(1,774)	(1,774)	—	(1,774)
Exercise of share options	157	8,286	—	—	—	8,443	—	8,443
Share buy back	—	—	—	(737)	—	(737)	—	(737)
Disposal of subsidiaries	—	—	(5,810)	(25)	5,810	(25)	—	(25)
Share based payments	—	—	—	—	1,125	1,125	—	1,125
Business combinations	—	—	—	—	—	—	10	10
Profit/(loss) for the year	—	—	—	—	39,365	39,365	(10)	39,355
<b>At 31 December 2008</b>	<b>1,076</b>	<b>8,286</b>	<b>—</b>	<b>753</b>	<b>17,539</b>	<b>27,654</b>	<b>—</b>	<b>27,654</b>
At 1 January 2009	1,076	8,286	—	753	17,539	27,654	—	27,654
Cancellation of treasury shares	(41)	(696)	—	737	—	—	—	—
Share issue net of associated costs	4,075	76,423	83,500	—	—	163,998	—	163,998
Share issue to employee benefit trust	151	2,730	—	—	(2,881)	—	—	—
Share based payments	—	—	—	—	1,083	1,083	—	1,083
Business combinations	—	—	—	—	—	—	594	594
(Loss)/profit for the period	—	—	—	—	(14,178)	(14,178)	150	(14,028)
<b>At 31 March 2010</b>	<b>5,261</b>	<b>86,743</b>	<b>83,500</b>	<b>1,490</b>	<b>1,563</b>	<b>178,557</b>	<b>744</b>	<b>179,301</b>

## CONSOLIDATED CASH FLOW STATEMENT

		15 month period ended	Year ended
		31 March	31 December
		2010	2008
	Note	£'000	£'000
<b>(Loss)/profit for the period</b>		<b>(14,028)</b>	39,355
Loss/(profit) from disposal of discontinued operations	4	52	(49,922)
Income tax credit		<b>(5,004)</b>	(8)
Loss arising on joint venture		12	167
Interest receivable		<b>(2,117)</b>	(3,624)
Interest payable		<b>776</b>	237
<b>Operating loss</b>		<b>(20,309)</b>	(13,795)
Adjustments for:			
Depreciation charge		1,964	7
Share of loss of joint venture		<b>2,468</b>	9,399
Impairment of tangible fixed assets		—	315
Amortisation of intangibles	8	<b>20,540</b>	21
Negative goodwill	5	<b>(5,791)</b>	—
Loss on sale of fixed assets		—	203
Share based payment costs		<b>211</b>	1,265
Operating cash flows before movements in working capital		<b>(917)</b>	(2,585)
Decrease/(increase) in inventories		<b>598</b>	(3)
Increase in receivables		<b>(2,992)</b>	(3,085)
Increase in payables		<b>2,321</b>	6,324
Decrease in provisions		<b>(579)</b>	(596)
<b>Cash (used)/generated from operations</b>		<b>(1,569)</b>	55
Interest paid		<b>(497)</b>	(87)
Interest element of finance lease repayments		<b>(50)</b>	(150)
Income taxes received		<b>20</b>	14
<b>Net cash used from operating activities</b>		<b>(2,096)</b>	(168)
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	3	<b>(90,499)</b>	—
Payment to acquire intangible assets	8	<b>(1,465)</b>	(85)
Cash left in disposal group		—	(2,395)
Investment in joint venture		<b>(1,378)</b>	(6,118)
Purchase of property, plant and equipment (held for sale)		—	(3,977)
Purchase of property, plant and equipment		<b>(846)</b>	(33)
Proceeds from sale of property, plant and equipment		—	7,149
Net proceeds from sale of subsidiaries	4	<b>4</b>	97,513
Proceeds from redemption of loan note		<b>17,500</b>	—
Interest received		<b>2,408</b>	1,422
<b>Net cash (used)/generated in investing activities</b>		<b>(74,276)</b>	93,476
<b>Cash flows from financing activities</b>			
Proceeds from the exercise of share options		—	8,443
Proceeds from issuance of ordinary shares		<b>78,498</b>	—
Payments to buy back shares – tender offer		—	(156,562)
Payments to buy back shares – treasury		—	(737)
Repayment of borrowings		<b>(2,567)</b>	—
Drawdown of new finance leases		—	396
Payment of finance lease liabilities		<b>(226)</b>	(1,003)
<b>Net cash generated/(used) from financing activities</b>		<b>75,705</b>	(149,463)
<b>Net decrease in cash and cash equivalents</b>		<b>(667)</b>	(56,155)
<b>Cash and cash equivalents at the start of the period</b>		<b>4,595</b>	60,750
<b>Cash and cash equivalents at the end of the period</b>		<b>3,928</b>	4,595

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS

### 1. Basis of preparation

Daisy Group plc (“the Company”) and its subsidiaries (together “the Group”) provide telecommunication and managed services to UK SME and mid-market businesses. The Company is a public limited company which is listed on the Alternative Investment Market (AIM) of the London Stock Exchange and is incorporated and domiciled in the UK. The address of its registered office is Daisy House, Lindred Road Business Park, Nelson, Lancashire BB9 5SR.

The financial information presented in this preliminary announcement is extracted from, and is consistent with, the Group’s audited financial statements for the period ended 31 March 2010. The financial information set out above does not constitute the Company’s statutory financial statements for the period ended 31 March 2010 or 31 December 2008 but is derived from those financial statements. Statutory financial statements for 2010 will be delivered following the Company’s annual general meeting. The auditors have reported on those financial statements; their report was unqualified and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The Group’s results have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The preliminary announcement has been agreed with the company’s auditors for release.

### 2. Segment information

For the year ending 31 March 2011, the Group will be changing the segments and internal reporting processes to more closely align with strategic objectives which will result in the reporting of segmental information by product group and channel to market product group. The new segments will be network services, data solutions, mobile solutions and system services. The new channel segments will be wholesale and mobile distribution. Supplementary financial information for revenue and gross margin in this revised format has been disclosed within the current period segmental information as follows:-

	<i>Network Services</i>	<i>Data Solutions</i>	<i>Mobile Solutions</i>	<i>System Services</i>	<i>Wholesale</i>	<i>Mobile Distribution</i>	<i>Total</i>
	<i>£’000</i>	<i>£’000</i>	<i>£’000</i>	<i>£’000</i>	<i>£’000</i>	<i>£’000</i>	<i>£’000</i>
Revenue	62,557	24,344	10,724	11,476	13,622	11,632	134,355
Gross profit	26,622	11,832	2,058	6,262	2,581	2,221	51,576

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group board of directors. Operating segments, for the period to 31 March 2010, were determined on the basis of the reports reviewed by the Group board of directors. The segments at 31 March 2010 comprised:-

**Daisy Retail** – the provision of integrated voice and data services to the small-medium business market including access, hosting, voice, managed services, telephone systems, maintenance and mobile telephony.

**Daisy Wholesale** – working exclusively through channel, the wholesale segment supplies partners with billing, provisioning and business software solutions in addition to voice, lines and data services.

**System Services** – the provision of third party services to channel partners in the UK ICT market. The System Services business was formed to provide traditional and IP-based carrier and engineering services.

**Mobile Distribution** – the distribution business to the independent mobile channel.

**Central** – consists of unallocated central activities which do not represent a separate reportable segment in accordance with IFRS 8.

The Wireless segment, consisting of the WiMAX and WiFi operations, has been treated as discontinued. All businesses are based in the UK.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 2. Segment information (continued)

Segmental revenue represents the total revenue of each business within a reporting segment and includes inter segment revenues. Segmental profit is the measure used to assess performance internally and is calculated as earnings before interest, taxation, depreciation, amortisation, impairment of fixed assets, share based payments and net exceptional operating costs ("adjusted EBITDA"), through to operating result.

Inter segmental transactions are carried out on an arm's length basis. The Group does not have any customers who contribute more than 10% of total revenue.

The segment information for the 15 months to 31 March 2010 is as follows:-

	<i>Daisy Retail £'000</i>	<i>Daisy Wholesale £'000</i>	<i>System Services £'000</i>	<i>Mobile Distribution £'000</i>	<i>Central costs £'000</i>	<i>Continuing operations £'000</i>
Total segment revenue	<b>102,687</b>	<b>14,586</b>	<b>7,149</b>	<b>11,631</b>	—	<b>136,053</b>
Inter segment revenue	—	<b>(964)</b>	<b>(734)</b>	—	—	<b>(1,698)</b>
<b>External revenue</b>	<b>102,687</b>	<b>13,622</b>	<b>6,415</b>	<b>11,631</b>	—	<b>134,355</b>
<b>Adjusted EBITDA</b>	<b>13,232</b>	<b>1,894</b>	<b>(1,940)</b>	<b>987</b>	<b>(3,198)</b>	<b>10,975</b>
Amortisation	(17,524)	(1,368)	(1,601)	(13)	—	<b>(20,506)</b>
Depreciation	(1,875)	(9)	(54)	(6)	(1)	<b>(1,945)</b>
Net exceptional operating costs	(2,172)	(44)	(3,002)	(10)	(608)	<b>(5,836)</b>
Share based payment costs	—	—	—	—	(211)	<b>(211)</b>
<b>Operating profit/(loss)</b>	<b>(8,339)</b>	<b>473</b>	<b>(6,597)</b>	<b>958</b>	<b>(4,018)</b>	<b>(17,523)</b>
<b>Total assets</b>	<b>268,958</b>	<b>19,397</b>	<b>13,491</b>	<b>7,576</b>	<b>70</b>	<b>309,492</b>

The segment information for the year ended 31 December 2008 is as follows:-

	<i>Daisy Retail £'000</i>	<i>Daisy Wholesale £'000</i>	<i>System Services £'000</i>	<i>Mobile Distribution £'000</i>	<i>Central costs £'000</i>	<i>Continuing operations £'000</i>
Total segment revenue	—	—	—	—	—	—
Inter segment revenue	—	—	—	—	—	—
<b>External revenue</b>	—	—	—	—	—	—
<b>Adjusted EBITDA</b>	—	—	—	—	(3,438)	(3,438)
Amortisation	—	—	—	—	—	—
Depreciation	—	—	—	—	(1)	(1)
Net exceptional operating costs	—	—	—	—	—	—
Share based payment costs	—	—	—	—	(1,265)	(1,265)
Impairment of property, plant and equipment	—	—	—	—	(315)	(315)
<b>Operating loss</b>	—	—	—	—	(5,019)	(5,019)
<b>Total assets</b>	—	—	—	—	23,517	23,517

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 2. Segment information (continued)

A reconciliation of operating loss to loss before tax and discontinued operations is provided below:-

	<b>15 months to 31 March 2010 £'000</b>	<i>Restated year to 31 December 2008 £'000</i>
Operating loss	<b>(17,523)</b>	(5,019)
Net finance income	<b>1,346</b>	3,523
<b>Loss before tax and discontinued operations</b>	<b><u>(16,177)</u></b>	<u>(1,496)</u>

Segment assets are reconciled to total assets as follows:-

	<b>31 March 2010 £'000</b>	<i>Restated 31 December 2008 £'000</i>
Non-current assets	<b>248,539</b>	5,256
Less investments in joint ventures	—	(5,142)
Currents assets (excluding disposal groups)	<b>60,953</b>	23,594
Less subsidiary disposals	—	(191)
<b>Segment assets</b>	<b><u>309,492</u></b>	<u>23,517</u>

The segment assets for the prior year have been restated to exclude the discontinued operations in respect of Freedom4 WiFi Limited and Freedom4 Limited.

### 3. Business combinations

#### a) Business combinations in the 15 months to 31 March 2010

On 21 July 2009 the Group acquired 100% of the share capital of Daisy Communications Limited ("Daisy") and Vialtus Holdings Limited ("Vialtus"). Under the AIM Rules these transactions constituted a reverse takeover of the Company.

On 3 August 2009 the Group acquired the trading assets of AT Communications Group plc ("ATC"). On the same day it acquired the trading assets of the Eurotel business ("Eurotel") from Belle Holdco Limited. Both businesses were acquired out of administration.

Prior to the acquisition of Daisy by the Group, Daisy held 50% of the share capital in Aerofone (UK) Limited ("Aerofone"). On 13 August 2009 the Group acquired the remaining 50% of the share capital. For the analysis below, Aerofone has been combined with Daisy on the basis of materiality (purchase consideration £1.7 million, net assets acquired £0.5 million).

On 28 August 2009 the Group acquired the telecommunications division of Redstone plc ("Redstone"). The division comprised the trading assets of Redstone plc's fixed line business and 100% of the share capital of its wholly owned subsidiaries Symphony Telecom Limited and Anglia Telecom Centres Limited.

On 6 February 2010 the Group acquired 100% of the share capital of Managed Communications Limited ("MCL").

On 18 February 2010 the Company announced a recommended cash offer to acquire 100% of the share capital of BNS Telecom Group plc ("BNS"). At this date, 83.89% of the share capital was acquired, with 98.95% being held by 31 March 2010. By 23 April 2010 the Group held 100% of the share capital in BNS.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 3. Business combinations (continued)

The purchase consideration for each acquisition was as follows:-

£'000	Daisy	Vialtus	ATC	Eurotel	Redstone	MCL	BNS	Total
Cash paid	32,242	12,962	7,000	13,500	16,500	6,400	10,640	99,244
Contingent cash consideration	—	—	(1,300)	—	—	2,600	—	1,300
Deferred cash consideration	—	—	—	—	(450)	—	91	(359)
Share issue	54,506	30,994	—	—	—	—	—	85,500
Share warrants issued	611	—	199	116	—	—	—	926
Direct acquisition costs	2,051	499	232	161	388	182	335	3,848
<b>Total purchase consideration</b>	<b>89,410</b>	<b>44,455</b>	<b>6,131</b>	<b>13,777</b>	<b>16,438</b>	<b>9,182</b>	<b>11,066</b>	<b>190,459</b>

The cash consideration for the Daisy acquisition increased by £0.5 million from that reported within the interim results as a result of a working capital adjustment.

The fair value of the shares issued was based on the published share price on 21 July 2009.

Direct acquisition costs include external legal and professional fees, stamp duty and employee bonuses which are fully contingent on the acquisition occurring.

The MCL acquisition includes an earn-out which provides additional consideration based on the earnings before interest and tax generated by MCL during a 12 month earn-out period following completion.

The contingent consideration of £2.6 million is expected to be paid in the year ending 31 March 2012.

As part of the ATC acquisition, £3.0 million was paid into an escrow account for distribution to the vendor based on performance of the acquired base and a working capital adjustment. It is estimated that the Group will recover £2.3 million from the escrow account. Outside the escrow account arrangement, further consideration of £1.0 million is payable to the vendor depending on the performance of an acquired contract. The net £1.3 million recoverable is shown above and is expected to be received in the year ending 31 March 2011.

The consideration of £11.0 million in respect of the BNS acquisition included assumed liabilities of £0.3 million.

The fair value of the share warrants has been calculated using the Black-Scholes model.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 3. Business combinations (continued)

The carrying amount of assets and liabilities in the books of the acquiree were as follows:-

£'000	Daisy	Vialtus	ATC	Eurotel	Redstone	MCL	BNS	Total
Intangible assets	16,595	32	—	—	338	62	1,112	18,139
Property, plant and equipment	439	5,037	237	—	306	593	794	7,406
Deferred tax asset	762	—	—	—	38	(68)	183	915
Inventories	86	—	950	73	319	—	456	1,884
Trade and other receivables	8,275	7,314	1,035	2,233	9,884	1,265	3,504	33,510
Cash and cash equivalents	8,372	2,649	—	—	1,717	1,118	(1,263)	12,593
Trade and other payables	(18,248)	(17,977)	—	—	(13,547)	(1,971)	(9,900)	(61,643)
Borrowings	(13,634)	(737)	—	—	—	—	(548)	(14,919)
Deferred tax liability	—	—	—	—	—	—	(232)	(232)
Provisions	—	(3,329)	—	—	—	—	—	(3,329)
<b>Total carrying amount</b>	<b>2,647</b>	<b>(7,011)</b>	<b>2,222</b>	<b>2,306</b>	<b>(945)</b>	<b>999</b>	<b>(5,894)</b>	<b>(5,676)</b>

The following fair value adjustments have been made:-

£'000	Daisy	Vialtus	ATC	Eurotel	Redstone	MCL	BNS	Total
Intangible assets								
– Customer lists	58,530	43,411	7,914	14,868	15,167	7,499	16,240	163,629
– Software	1,672	—	—	—	—	—	—	1,672
– Supplier relationships	3,570	—	—	—	—	—	—	3,570
	63,772	43,411	7,914	14,868	15,167	7,499	16,240	168,871
Deferred tax – intangible assets	(17,705)	(12,155)	(1,121)	(951)	165	(2,100)	(4,536)	(38,403)
Deferred tax – other timing differences	—	9,767	—	—	—	—	—	9,767
<b>Total fair value adjustments</b>	<b>46,067</b>	<b>41,023</b>	<b>6,793</b>	<b>13,917</b>	<b>15,332</b>	<b>5,399</b>	<b>11,704</b>	<b>140,235</b>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 3. Business combinations (continued)

The provisional fair values of the assets and liabilities and the associated goodwill arising from the acquisitions are as follows:-

£'000	Note	Daisy	Vialtus	ATC	Eurotel	Redstone	MCL	BNS	Total
Intangible assets	8	80,367	43,443	7,914	14,868	15,505	7,561	17,352	187,010
Property, plant, equipment		439	5,037	237	—	306	593	794	7,406
Deferred tax asset		762	9,767	—	—	38	(68)	183	10,682
Inventories		86	—	950	73	319	—	456	1,884
Trade and other receivables		8,275	7,314	1,035	2,233	9,884	1,265	3,504	33,510
Cash and cash equivalents		8,372	2,649	—	—	1,717	1,118	(1,263)	12,593
Trade and other payables		(18,248)	(17,977)	—	—	(13,547)	(1,971)	(9,900)	(61,643)
Borrowings		(13,634)	(737)	—	—	—	—	(548)	(14,919)
Deferred tax liability		(17,705)	(12,155)	(1,121)	(951)	165	(2,100)	(4,768)	(38,635)
Provisions		—	(3,329)	—	—	—	—	—	(3,329)
		48,714	34,012	9,015	16,223	14,387	6,398	5,810	134,559
Minority interests		—	—	—	—	(594)	—	—	(594)
<b>Net assets acquired</b>		<b>48,714</b>	<b>34,012</b>	<b>9,015</b>	<b>16,223</b>	<b>13,793</b>	<b>6,398</b>	<b>5,810</b>	<b>133,965</b>
Goodwill	7	41,157	10,443	—	—	2,645	2,784	5,256	62,285
Negative goodwill	5	(461)	—	(2,884)	(2,446)	—	—	—	(5,791)
<b>Purchase consideration</b>		<b>89,410</b>	<b>44,455</b>	<b>6,131</b>	<b>13,777</b>	<b>16,438</b>	<b>9,182</b>	<b>11,066</b>	<b>190,459</b>

The provisional fair values will be finalised in the 2011 financial statements. The fair values are provisional as a result of the proximity of many acquisitions to the period end.

The goodwill is attributable to the cost synergies and cross selling opportunities that are expected to be achieved from combining the acquired customer bases and trade.

The negative goodwill in respect of Eurotel and ATC reflects the additional cost and management time required to stabilise and then integrate these businesses which were previously in administration.

Daisy Communications Limited acquired 50% of the shares in Aerofone on 4 April 2009 for £1. This was deemed to be the fair value of consideration when Daisy Group plc subsequently acquired Daisy Communications Limited which gave rise to the negative goodwill of £0.5 million above.

£'000	Daisy	Vialtus	ATC	Eurotel	Redstone	MCL	BNS	Total
Purchase consideration settled in cash (including costs)	34,293	13,461	7,232	13,661	16,888	6,582	10,975	103,092
Cash and cash equivalents in acquiree	(8,372)	(2,649)	—	—	(1,717)	(1,118)	1,263	(12,593)
<b>Cash outflow</b>	<b>25,921</b>	<b>10,812</b>	<b>7,232</b>	<b>13,661</b>	<b>15,171</b>	<b>5,464</b>	<b>12,238</b>	<b>90,499</b>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 3. Business combinations (continued)

From the date of acquisition to 31 March 2010, the acquired businesses contributed the following revenues and net profit:-

£'000	Integrated	Vialtus	MCL	BNS	Total
Revenue	109,184	20,862	762	3,547	134,355
Adjusted EBITDA	9,551	3,945	325	352	14,173
Net profit/(loss) before tax	(9,789)	(3,864)	114	(243)	(13,782)

Between the date of acquisition and 31 March 2010, there has been a high degree of integration within the Daisy, ATC, Eurotel and Redstone businesses. For the analysis above, the results of these entities have been aggregated into "integrated" due to the difficulty in separating the results of the integrated businesses.

If the acquisitions had occurred on 1 January 2009, the Group's revenue and profit for the 15 month period would be as follows:-

	£'000
Revenue	299,468
Adjusted EBITDA	28,982
Loss before tax	(19,377)

### b) Business combinations in the year ended 31 December 2008

On 17 April 2008 Freedom4 WiFi Limited acquired the trade and assets of BOZII Limited for cash consideration of £0.1 million, giving rise to intangible assets of £0.1 million. From the date of acquisition to 31 December 2008, the contribution from the acquisition to revenue was £0.1 million and to operating activities was a loss of £0.4 million.

## 4. Disposal of subsidiaries

### a) Disposal of subsidiaries in the 15 months to 31 March 2010

On 26 February 2010 the Company disposed of Freedom4 WiFi Limited to management for a nominal consideration satisfied in cash. At the date of disposal the net assets of the company were:-

	26 February 2010	
	Note	
	£'000	
Intangible assets	8	31
Property, plant and equipment		26
Trade and other receivables		37
Cash and cash equivalents		2
Trade and other payables		(38)
		58
Loss on disposal		(52)
<b>Total consideration satisfied by cash</b>		<b>6</b>

### b) Disposal of subsidiaries in the year ended 31 December 2008

During 2008 the Group disposed of its hosting and network services division. On 14 March 2008, the Group announced that it had entered into a conditional agreement for the sale of the hosting and network services division to a wholly-owned subsidiary of Oakley L.P. The agreement was completed on 2 April 2008. The sale was of the share capital of GX Networks Limited, XTML Holdings Limited, CIX Holdings Limited, Supanetwork Limited and Transigent Limited together with the subsidiaries of these entities (all listed below), and which, taken together, comprised the hosting and network services division.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 4. Disposal of subsidiaries (continued)

123-Reg Limited	CIX Holdings Limited
Compulink Information Exchange Limited	Cyberpress Limited
Defries & Haim Limited	Donhost Limited
Drivememory Limited	GX Networks (UK) Limited
GX Networks Limited	GXN Limited
Host Europe GmbH	Host Europe Limited
Magic Moments Design Limited	Magic Moments Employee Benefits Limited
Magic Moments Internet Services Limited	Magic Moments Investments Limited
Supanetwork Limited	Transigent Limited
Vialtus Solutions Limited	Webfusion Internet Limited
Webfusion Internet Services Limited	XTML Holdings Limited
XTML Limited	

The proceeds of the sale amounted to £110.0 million after adjusting for debt assumed by the buyer, and before costs. The sale proceeds comprised £92.5 million in cash and £17.5 million in loan notes. In addition, the buyer paid £2.6 million in cash in respect of the bank and cash balance left in the businesses at completion. This £2.6 million is not included in the cash and cash equivalents below. The loan notes were repaid in September 2009 and accrued interest at the rate of 8.25% per annum for the first 12 months and 10.75% per annum thereafter.

For the period to 2 April 2008 the turnover attributable to the division was £22.2 million (compared to a turnover of £72.3 million for the full year in 2007) with an EBITDA (earnings before amortisation of intangibles, depreciation, impairment and share based payment costs) of £1.0 million (compared to £4.4 million for the full year in 2007).

On 2 April 2008 the net assets of the above companies were as follows:-

	<i>2 April 2008</i>
	<i>£'000</i>
Intangible assets	300
Property, plant and equipment	34,009
Trade and other receivables	27,864
Cash and cash equivalents	2,395
Trade and other payables	(33,004)
Non-current borrowings	(5,415)
Obligations under finance leases	(7,886)
Provisions	(956)
Deferred tax liability	(144)
Income tax liability	(106)
Attributable goodwill	39,534
	<hr/>
	56,591
Cost of disposal	4,644
Gain on disposal	48,765
<b>Total consideration</b>	<hr/> <b>110,000</b> <hr/>
Satisfied by:-	
Cash	92,500
Deferred consideration	17,500
	<hr/> 110,000 <hr/>

The cost of disposal of £4.6 million consists of legal and professional fees of £4.0 million, payroll costs of £0.3 million and other costs of £0.3 million.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 4. Disposal of subsidiaries (continued)

	<i>2008</i>
	<i>£'000</i>
Hosting and network services division	48,765
Broadband and voice division (disposed of in 2007)	1,157
<b>Profit on disposal</b>	<u>49,922</u>

### 5. Net exceptional operating costs

Items that are material in size and non-operating or non-recurring in nature are presented as exceptional items in the income statement, within the relevant account heading. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance. Net exceptional operating costs are summarised below:-

	<i>15 months to</i>	<i>Year to</i>
	<i>31 March</i>	<i>31 December</i>
	<i>2010</i>	<i>2008</i>
	<i>£'000</i>	<i>£'000</i>
Employee related restructuring costs	<b>5,522</b>	—
Other restructuring costs	<b>6,105</b>	—
Negative goodwill	<b>(5,791)</b>	—
<b>Net exceptional operating costs</b>	<u><b>5,836</b></u>	—

Employee related restructuring represents rationalisation and redundancy costs incurred as part of the Group's change programme. The other restructuring costs principally relate to set up costs in respect of businesses purchased out of administration, which have been expensed. Negative goodwill relates mainly to businesses purchased out of administration and reflects the additional cost and management time required to stabilise and then integrate these businesses into the operations of the Group.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 6. (Loss)/earnings per share

Basic earnings per share is calculated by dividing the (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The calculation of the statutory and adjusted basic and diluted earnings per share is as follows:-

	<b>15 months to 31 March 2010 Number million</b>	<i>Restated year to 31 December 2008 Number million</i>
<b>Number of shares:-</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	166	71
Dilution impact of share warrants and options	1	—
Diluted number of ordinary shares for the purpose of the diluted earnings per share	<u>167</u>	<u>71</u>
<b>Earnings</b>	<b>£'000</b>	<b>£'000</b>
Loss after tax from continuing operations	(11,173)	(1,483)
Minority interest	<u>150</u>	<u>—</u>
<b>Loss for the period attributable to equity holders of the parent in respect of continuing operations</b>	<u>(11,323)</u>	<u>(1,483)</u>
(Loss)/profit after tax from discontinued operations	(2,855)	40,838
Minority interest	<u>—</u>	<u>(10)</u>
<b>(Loss)/profit for the period attributable to equity holders of the parent in respect of discontinued operations</b>	<u>(2,855)</u>	<u>40,848</u>
<b>Basic (loss)/earnings per share:</b>	<b>pence</b>	<b>pence</b>
From continuing operations	(6.82)	(2.09)
From discontinued operations	<u>(1.72)</u>	<u>57.53</u>
	<u>(8.54)</u>	<u>55.44</u>
<b>Diluted (loss)/earnings per share:</b>		
From continuing operations	(6.82)	(2.09)
From discontinued operations	<u>(1.72)</u>	<u>57.53</u>
	<u>(8.54)</u>	<u>55.44</u>

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 6. (Loss)/earnings per share (continued)

The adjusted basic and diluted (loss)/earnings per share from continuing operations is calculated on the same share base after taking into account the adjustments as described below:-

	<b>15 months to 31 March 2010 £'000</b>	<i>Restated year to 31 December 2008 £'000</i>
<b>Adjusted EPS</b>		
Loss for the period attributable to equity holders of the parent in respect of continuing operations	<b>(11,323)</b>	(1,483)
Add:-		
Net exceptional operating costs	<b>5,836</b>	—
Share based payment costs	<b>211</b>	1,265
Amortisation of intangibles (excluding software)	<b>19,906</b>	—
Impairment of property, plant and equipment	<b>—</b>	315
Income tax charge attributable to minority interests	<b>24</b>	—
Less:-		
Income tax credit	<b>(5,004)</b>	(13)
<b>Adjusted earnings before tax</b>	<b>9,650</b>	84
Tax on the above	<b>(2,847)</b>	—
<b>Adjusted earnings for the period after tax</b>	<b>6,803</b>	84
	<i>pence</i>	<i>pence</i>
<b>Basic earnings per share based on adjusted earnings</b>	<b>4.10</b>	0.12
<b>Diluted earnings per share based on adjusted earnings</b>	<b>4.07</b>	0.12

The comparative information for loss per share has been restated to reflect the 20:1 share consolidation that took place as part of the share placement in July 2009. For periods where the Group was loss-making, dilution has no effect on loss per share.

### 7. Goodwill

	<i>Note</i>	<i>£'000</i>
<b>Cost and net book amount</b>		
At 1 January 2008 and 31 December 2008		—
At 1 January 2009		—
Business combinations	3	62,285
<b>At 31 March 2010</b>		<b>62,285</b>

In accordance with IAS 36, goodwill is not amortised, but is reviewed annually for indications of impairment or more frequently if there are indications that it may be impaired.

Goodwill has been allocated to cash generating units ("CGU") as follows for impairment testing:-

	<i>£'000</i>
Daisy Retail	54,387
Daisy Wholesale	5,682
Mobile Distribution	2,216
	<b>62,285</b>

These CGUs represent the lowest level within the Group at which goodwill was monitored by management for internal reporting purposes, and the level that represented the smallest identifiable group of assets which generated largely independent cash inflows.

## **NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)**

### **7. Goodwill (continued)**

#### **Goodwill impairment reviews**

Testing for impairment is performed by allocating goodwill to the relevant CGU and assessing the recoverable amount for each CGU based on value in use calculations. These calculations use cash flow projections derived from the most recent three-year financial plans approved by the board, which comprise the budget for 2010/11 and the outlook for 2011/12 and 2012/13, in which the principle assumptions were revenue growth rates and changes in costs. Revenue growth rates are based on past experience and management's expectation of future changes in the Group's business and markets.

Cash flows beyond three years for the CGUs to which individually significant amounts of goodwill were allocated were extrapolated using a 2.0% growth rate, which does not exceed the expected long-term growth rate in the United Kingdom, the principle market of the Group.

Pre-tax discount rates of 10.0% to 12.0%, derived from the Group's weighted average cost of capital, have been used in discounting the projected cash flows and calculating the terminal value at the end of year three. This discount rate reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs.

Based on the results of the current period impairment review, no impairment charges have been recognised by the Group in the period ended 31 March 2010. Having assessed the anticipated future cash flows the directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the period ended 31 March 2010.

## NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)

### 8. Other intangible assets

	Note	Customer lists £'000	Computer software £'000	Supplier relationships £'000	Licences £'000	Total £'000
<b>Cost</b>						
At 1 January 2008		—	—	—	—	—
Acquisitions through business combinations	3	85	—	—	—	85
<b>At 31 December 2008</b>		<b>85</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>85</b>
At 1 January 2009		85	—	—	—	85
Acquisitions through business combinations	3	181,025	2,346	3,570	69	187,010
Additions		1,079	386	—	—	1,465
Disposal of subsidiaries	4	(85)	—	—	—	(85)
<b>At 31 March 2010</b>		<b>182,104</b>	<b>2,732</b>	<b>3,570</b>	<b>69</b>	<b>188,475</b>
<b>Amortisation and impairment</b>						
At 1 January 2008		—	—	—	—	—
Amortisation for the year		21	—	—	—	21
<b>At 31 December 2008</b>		<b>21</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>21</b>
At 1 January 2009		21	—	—	—	21
Amortisation for the period		18,691	600	1,238	11	20,540
Disposal of subsidiaries	4	(54)	—	—	—	(54)
<b>At 31 March 2010</b>		<b>18,658</b>	<b>600</b>	<b>1,238</b>	<b>11</b>	<b>20,507</b>
<b>Net book amount</b>						
At 1 January 2008		—	—	—	—	—
<b>At 31 December 2008</b>		<b>64</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>64</b>
<b>At 31 March 2010</b>		<b>163,446</b>	<b>2,132</b>	<b>2,332</b>	<b>58</b>	<b>167,968</b>

The significant additions in the period represent customer relationships acquired through business combinations. These are valued using discounted cash flow methods based on pre-tax discount rates of between 10.0% and 12.0%, derived from the Group's weighted average cost of capital, adjusted for risk as appropriate. These customer relationships are being amortised over their useful economic lives of between 3 and 7 years. The expected useful lives are an estimate and are not secured by any legal obligations on the customers to continue with the Group for any finite period beyond their current contract period.

All amortisation above is included within operating costs and is disclosed separately on the face of the income statement.

Employee costs totalling £0.2million have been capitalised within the computer software additions above.

## **NOTES TO THE PRELIMINARY FINANCIAL STATEMENTS (continued)**

### **9. Events after the balance sheet date**

On 22 April 2010 the Group acquired the entire issued share capital of Cole Robert & Co Limited ("CRC") for a total consideration of £2.1 million, of which £0.5 million is deferred subject to CRC achieving gross profit targets in the six months following acquisition. Net assets acquired were £0.2 million resulting in the recognition of provisional goodwill and customer relationship intangible assets of £1.9 million. CRC is a wholesale telecoms and internet service provider, with the majority of the business being a white-label broadband offering, over a range of broadband networks.

On 4 June 2010 the Group entered into a new £75 million three-year revolving borrowing facility. This new facility replaces the Group's previous finance arrangements, providing adequate funding to meet the Group's current cash flow forecast requirements and to finance further acquisitions.

On 10 June 2010 the Group acquired the entire issued share capital of Fone Logistics Limited ("FLL") for a cash consideration of £3.6 million. Net assets acquired were £0.5 million resulting in the recognition of provisional goodwill of £3.1 million. FLL is a provider of mobile handsets and airtime to the SME market through an independent dealer channel.

On 17 June 2010 the Group announced the disposal of its WiMAX spectrum licences for £12.5 million.

There are no other significant post-balance sheet events affecting the Group since 31 March 2010.