

## **Aerial Direct Limited**

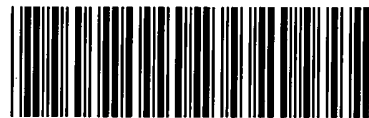
Report and Financial Statements

Year Ended

30 September 2017

Company Number 08043921

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# **Aerial Direct Limited**

## **Company Information**

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|-----------------------------|---------------------------------------------------------------------------------------|
| <b>Directors</b>            | P H Davis<br>D Kilby                                                                  |
| <b>Registered number</b>    | 08043921                                                                              |
| <b>Registered office</b>    | 12 Rodney Road<br>Southsea<br>Portsmouth<br>Hampshire<br>PO4 8SY                      |
| <b>Independent auditors</b> | BDO LLP<br>Arcadia House<br>Maritime Walk<br>Ocean Village<br>Southampton<br>SO14 3TL |

# Aerial Direct Limited

## Contents

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|                                                  | Page    |
|--------------------------------------------------|---------|
| <b>Strategic Report</b>                          | 1 - 2   |
| <b>Directors' Report</b>                         | 3 - 4   |
| <b>Independent Auditors' Report</b>              | 5 - 7   |
| <b>Statement of Income and Retained Earnings</b> | 8       |
| <b>Balance Sheet</b>                             | 9       |
| <b>Statement of Cash Flows</b>                   | 10      |
| <b>Notes to the Financial Statements</b>         | 11 - 26 |

# **Aerial Direct Limited**

## **Strategic Report For the Year Ended 30 September 2017**

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### **Introduction**

The directors present their strategic report for the year ended 30 September 2017

### **Business review**

The company operates in the telecommunications sector and resells telecommunications services including the sale, installation and maintenance of fixed line services, and handset financing for over 100,000 customers across the UK. Aerial Direct is the largest O2 direct business partner in the UK.

In 2017 was a transition year for Aerial Direct, there were a number of key additions to the management team to enable it to deliver on its plans for future growth.

The company continued to invest significantly in two areas:

- The continued development of our systems sales to provide a comprehensive well supported service, from sales and installation through to ongoing maintenance and customer support.
- Continued research and development of our bespoke IT systems, achieving real time integration with key suppliers and other business stakeholders reducing manual input required to run our business operation.

Both of the above have enable Aerial to continue to build on its excellent reputation for customer service, as shown by an industry leading Trust pilot score of 9.4, whilst delivering industry leading margins.

This continued commitment to excellent service has enabled Aerial to win the Best B2B Dealer (over 50 employees) at the mobile news awards 2017 and the O2 Customer Excellence Award 2017 for the second year in a row.

### **Principal risks and uncertainties**

The principal risks for the business are considered to be the following

#### **1) Lack of diversification**

The business has continued to develop its fixed line telephony business and grown its customer base in order to spread the risk away from its core activity of Mobile Telecommunications. Furthermore, the business is looking to cross sell other business services into its client base (ie utilities, broader IT services).

#### **2) General economic activity**

The business operates largely in the SME space, the directors look to manage economic reliance on any single source of supplier or customers and within a particular sector.

#### **3) Liquidity and cash flow**

The maintains strong cash generation, it is a key KPI and target for the business to maximise the monthly cashflow from the operation.

### **Financial key performance indicators**

The results for the year are set out within the profit and loss account. They show a decrease in profits. During the year the company chose to review its accounting policy in respect of revenue recognition for the commission revenue. The impact of this is shown on note 21. This aligns the accounting to other significant operators in the sector.

# **Aerial Direct Limited**

## **Strategic Report (continued) For the Year Ended 30 September 2017**

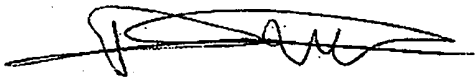
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### **Future developments**

This is truly an exciting time to be part of the Aerial team, 2018 promises to be an exciting year to further develop our proposition and return to growth.

- We have already invested over £4.5M in a new corporate head office to create a strong corporate brand identity as well as being in a position to improve talent acquisition,
- Build an acquisition pipeline to enhance our fixed line offering and broaden our product set,
- Further consolidated our position as the leading O2 business partner,
- Restructure of the business to incorporate associated businesses into a single Aerial Group, including Beebu our MVNO network; and
- Accelerated development of Evolution, our in-house CRM platform, to provide an enhanced customer experience and ensure we drive automation into our processes.

This report was approved by the board on 29 June 2018 and signed on its behalf.



**D Kilby**  
Director

# **Aerial Direct Limited**

## **Directors' Report For the Year Ended 30 September 2017**

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The directors present their report and the financial statements for the year ended 30 September 2017.

### **Directors' responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

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

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

### **Matters covered in Strategic Report**

The principal activities of the business, including the principal risks and uncertainties and future developments are set out in the Strategic Report on page 1.

### **Results and dividends**

The profit for the year, after taxation, amounted to £4,516,464 (2016 - £6,908,697).

A final dividend of £3,450,000 (2016: £3,850,000) was declared and paid during the year.

### **Directors**

The directors who served during the year were:

P H Davis  
D Kilby

# **Aerial Direct Limited**

## **Directors' Report (continued) For the Year Ended 30 September 2017**

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### **Disclosure of information to auditors**

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

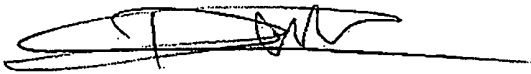
### **Post balance sheet events**

The company purchased a freehold property during January 18 to relocate the head office for £4.5m (including refurbishment costs), to support the planned growth of the business going forward.

### **Auditors**

BDO were appointed as auditors during the year. The auditors, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 29 June 2018 and signed on its behalf.



**D Kilby**  
Director

# **Aerial Direct Limited**

## **Independent Auditor's report to the members of Aerial Direct Limited**

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### **Opinion**

We have audited the financial statements of Aerial Direct Limited ("the Company") for the year ended 30 September 2017 which comprise the Statement of Comprehensive Income and Retained Earnings, the Balance Sheet, the Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Strategic Report and Director's Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# **Aerial Direct Limited**

## **Independent Auditor's report to the members of Aerial Direct Limited (continued)**

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### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Director's Report.

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

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

### **Responsibilities of directors**

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Aerial Direct Limited

## Independent Auditor's report to the members of Aerial Direct Limited (continued)

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### Use of our report

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

A handwritten signature in black ink, appearing to read 'BDOLLP', with a horizontal line underneath it.

**James Newman** (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
Southampton  
United Kingdom

29 June 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Aerial Direct Limited

## Statement of Income and Retained Earnings For the Year Ended 30 September 2017

|                                                 | Note | 2017<br>£        | As restated<br>2016<br>£ |
|-------------------------------------------------|------|------------------|--------------------------|
| Turnover                                        | 4    | 20,116,364       | 22,897,267               |
| Cost of sales                                   |      | (11,103,767)     | (11,743,230)             |
| <b>Gross profit</b>                             |      | <b>9,012,597</b> | <b>11,154,037</b>        |
| Administrative expenses                         |      | (3,345,535)      | (3,103,294)              |
| <b>Operating profit</b>                         | 5    | <b>5,667,062</b> | <b>8,050,743</b>         |
| Interest receivable and similar income          | 7    | 442,532          | 276,507                  |
| Interest payable and expenses                   | 8    | (420,194)        | (278,011)                |
| <b>Profit before tax</b>                        |      | <b>5,689,400</b> | <b>8,049,239</b>         |
| Tax on profit                                   | 9    | (1,172,936)      | (1,140,542)              |
| <b>Profit after tax</b>                         |      | <b>4,516,464</b> | <b>6,908,697</b>         |
| Retained earnings at the beginning of the year  |      | 4,066,804        | 1,008,107                |
|                                                 |      | 4,066,804        | 1,008,107                |
| Profit for the year                             |      | 4,516,464        | 6,908,697                |
| Dividends declared and paid                     |      | (3,450,000)      | (3,850,000)              |
| <b>Retained earnings at the end of the year</b> |      | <b>5,133,268</b> | <b>4,066,804</b>         |

There were no recognised gains and losses for 2017 or 2016 other than those included in the statement of income and retained earnings.

The notes on pages 11 to 26 form part of these financial statements.

**Aerial Direct Limited**  
Registered number: 08043921

**Balance Sheet**  
**As at 30 September 2017**

|                                                         | Note | 2017<br>£         | 2017<br>£               | As restated<br>2016<br>£ | As restated<br>2016<br>£ |
|---------------------------------------------------------|------|-------------------|-------------------------|--------------------------|--------------------------|
| <b>Fixed assets</b>                                     |      |                   |                         |                          |                          |
| Intangible assets                                       | 11   |                   | -                       |                          | 68,886                   |
| Tangible assets                                         | 12   |                   | 302,884                 |                          | 332,557                  |
|                                                         |      |                   | <u>302,884</u>          |                          | <u>401,443</u>           |
| <b>Current assets</b>                                   |      |                   |                         |                          |                          |
| Stocks                                                  | 13   | 297,263           |                         | 5,424                    |                          |
| Debtors: amounts falling due after more than one year   | 14   | 5,809,161         |                         | 5,519,512                |                          |
| Debtors: amounts falling due within one year            | 14   | 14,099,526        |                         | 12,205,547               |                          |
| Cash at bank and in hand                                |      | 522,740           |                         | 1,612,624                |                          |
|                                                         |      | <u>20,728,690</u> |                         | <u>19,343,107</u>        |                          |
| Creditors: amounts falling due within one year          | 15   | (11,259,640)      |                         | (10,426,022)             |                          |
| <b>Net current assets</b>                               |      |                   | <u>9,469,050</u>        |                          | <u>8,917,085</u>         |
| <b>Total assets less current liabilities</b>            |      |                   | <u>9,771,934</u>        |                          | <u>9,318,528</u>         |
| Creditors: amounts falling due after more than one year |      |                   | (4,597,675)             |                          | (4,744,256)              |
| Provisions for liabilities                              | 18   |                   | (40,871)                |                          | (507,348)                |
| <b>Net assets</b>                                       |      |                   | <u><u>5,133,388</u></u> |                          | <u><u>4,066,924</u></u>  |
| <b>Capital and reserves</b>                             |      |                   |                         |                          |                          |
| Called up share capital                                 | 19   |                   | 120                     |                          | 120                      |
| Profit and loss account                                 | 20   |                   | 5,133,268               |                          | 4,066,804                |
|                                                         |      |                   | <u><u>5,133,388</u></u> |                          | <u><u>4,066,924</u></u>  |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 June 2018.



**D Kilby**  
Director

The notes on pages 11 to 26 form part of these financial statements.

# Aerial Direct Limited

## Statement of Cash Flows For the Year Ended 30 September 2017

|                                                               | 2017<br>£          | As restated<br>2016<br>£ |
|---------------------------------------------------------------|--------------------|--------------------------|
| <b>Cash flows from operating activities</b>                   |                    |                          |
| Profit for the financial year                                 | 4,516,464          | 6,908,697                |
| <b>Adjustments for:</b>                                       |                    |                          |
| Amortisation of intangible assets                             | 68,886             | 68,885                   |
| Depreciation of tangible assets                               | 100,961            | 72,302                   |
| Interest paid                                                 | 420,194            | 278,011                  |
| Interest received                                             | (442,532)          | (276,507)                |
| Taxation charge                                               | 1,172,936          | 1,140,542                |
| (Increase) in stocks                                          | (291,839)          | (5,424)                  |
| (Increase) in debtors                                         | (2,339,373)        | (7,118,329)              |
| (Decrease)/increase in creditors                              | (7,693)            | 4,002,382                |
| Corporation tax (paid)                                        | (754,683)          | (1,327,615)              |
| <b>Net cash generated from operating activities</b>           | <b>2,443,321</b>   | <b>3,742,944</b>         |
| <b>Cash flows from investing activities</b>                   |                    |                          |
| Purchase of tangible fixed assets                             | (71,288)           | (40,698)                 |
| Interest paid                                                 | (11,917)           | -                        |
| <b>Net cash from investing activities</b>                     | <b>(83,205)</b>    | <b>(40,698)</b>          |
| <b>Cash flows from financing activities</b>                   |                    |                          |
| Dividends paid                                                | (3,450,000)        | (3,850,000)              |
| <b>Net cash used in financing activities</b>                  | <b>(3,450,000)</b> | <b>(3,850,000)</b>       |
| <b>Net (decrease) in cash and cash equivalents</b>            | <b>(1,089,884)</b> | <b>(147,754)</b>         |
| Cash and cash equivalents at beginning of year                | 1,612,624          | 1,760,378                |
| <b>Cash and cash equivalents at the end of year</b>           | <b>522,740</b>     | <b>1,612,624</b>         |
| <b>Cash and cash equivalents at the end of year comprise:</b> |                    |                          |
| Cash at bank and in hand                                      | 522,740            | 1,612,624                |
|                                                               | <b>522,740</b>     | <b>1,612,624</b>         |

The notes on pages 11 to 26 form part of these financial statements.

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

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### 1. General information

Aerial Direct Limited is a company limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities is disclosed in the strategic report.

### 2. Accounting policies

#### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

#### 2.2 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Revenue comprises sales of goods and services excluding sales taxes. The following accounting policies are applied to the principal revenue generating activities in which the company is engaged:

- network commission revenue is recognised with reference to the stage of completion of the service under the individual contract with the MNO, as outlined in network commissions section;
- revenue from the sale of goods is recognised at the point of sale or, where later, upon delivery to the customer and is stated net of returns;
- revenue earned from the on going performance obligation to provide customer support is recognised over the term of the contracts when the company obtains the right to consideration as a result of performance of its contractual obligations. At year end deferred income predominately relates to deferred customer support revenues.
- revenue generated from the provision of fixed and mobile network services is recognised as it is earned over the lives of the relevant customers.

#### *Network commissions*

The company operates under contracts with a Mobile Network Operator ('MNO'). Over the life of these contracts the service provided by the company to the MNO is the procurement of connections to the MNO's network.

The individual consumer enters into a contract with the MNO for the MNO to supply the ongoing airtime over that contract period.

The company earns a commission for the service provided to each MNO ('network commission'). Revenue is recognised with reference to the stage of completion of the service under the individual contract with the MNO.

# **Aerial Direct Limited**

## **Notes to the Financial Statements For the Year Ended 30 September 2017**

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### **2. Accounting policies (continued)**

A key judgement associated with this recognition is the unit of account used in recognition. The company has determined that the number and value of consumers provided to the MNO in any given month represents the best output measure of stage of completion of each contract.

The level of network commission earned is based on a share of the monthly payments made by the consumer to the MNO. The total consideration receivable is determined by both fixed (monthly line rental) and variable elements (being out of bundle and out of contract revenue share). The company recognise all of the fixed revenue share expected over a consumers contract when a consumer is connected to the MNO. This gives rise to accrued income being recognised, which is collected over the consumers contract.

Estimating in advance variable elements of revenue is subject to significant judgements and is dependent on consumer behaviour after the point of recognition. The company does not consider that the amount of out of bundle and out of contract revenue can be measured reliably in advance, and therefore these revenues are recognised in the month they are received.

The method of measuring the fair value of the revenue and associated receivables in the month of connection is to estimate all future cash flows that will be received from the network and discount these based on their timing of receipt.

The determined commission is recognised in full in the month of connection of the consumer to the MNO as this is the point at which the company has completed the service obligation relating to the consumer connection. An element of revenue is then deferred regarding the on going performance obligation to provide customer support to consumers and this is recognised over the term of the consumer contracts.

Commission revenue is only recognised to the extent it can be reliably measured for each consumer.

Payment terms with the MNO are based on a mix of cash received upon connection and future payments as the MNO receives monthly instalments from end consumers over the life of the consumer contract. The gross commission receivable in any month is settled for certain MNOs over the life of consumer contracts. Payments on account received in advance from the MNO are recognised within creditors as payments on account, there is no right of offset against the accrued income, and these are repaid over 16 months.

### **2.3 Goodwill**

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straightline basis to the Statement of Income and retained Earnings over its useful economic life.

### **2.4 Tangible fixed assets**

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

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### 2. Accounting policies (continued)

#### 2.4 Tangible fixed assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, on a reducing balance basis.

Depreciation is provided on the following basis:

|                       |   |               |
|-----------------------|---|---------------|
| Fixtures and fittings | - | 25% per annum |
| Office equipment      | - | 25% per annum |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Income and Retained Earnings.

#### 2.5 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

#### 2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

#### 2.7 Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, and loans from third parties.

#### 2.8 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

#### 2.9 Finance costs

Finance costs are charged to the Statement of Income and Retained Earnings over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

# **Aerial Direct Limited**

## **Notes to the Financial Statements For the Year Ended 30 September 2017**

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### **2. Accounting policies (continued)**

#### **2.10 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

#### **2.11 Pensions**

##### **Defined contribution pension plan**

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Income and Retained Earnings when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

#### **2.12 Interest income**

Interest income is recognised in the Statement of Income and Retained Earnings using the effective interest method.

#### **2.13 Accrued income**

The accrued income amounts are discounted on initial recognition with the difference between the present value of the accrued income and the absolute accrued income to be collect over time being recorded against turnover. Following initial recognition interest receivable is recognised and recorded to increase the accrued income amounts to the absolute accrued income balance which is collectable over time.

#### **2.14 Cashback liability**

A liability is recognised for cashback offered to customers at the date of connection, that the company is contractually obliged to repay over a period of time. The liability is settled on a monthly basis, paid back over the life of the customer contract.

The cashback liability are discounted on initial recognition with the difference between the present value of the cashbacks and the absolute cashbacks to be paid over time being recorded against cost of sales. Following initial recognition interest payable is recognised and is recorded to increase the cashback amounts to the absolute cashback balance which is payable over time.

#### **2.15 Payments on account**

Payments on account represent payments by networks to the entity which are repayable in instalments over a number of months in accordance with the contract terms. These have been recognised within creditors as "payment on account".

The payments on account amounts are discounted on initial recognition with the difference between the present value of the payments on account and the absolute payments on account to be paid over time being recorded against cost of sales. Following initial recognition interest payable is recognised and is recorded to increase the payments on account amounts to the absolute payments on account balance which is payable over time.

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

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### 2. Accounting policies (continued)

#### 2.16 Leased assets

Where assets are financed by leasing agreements that give rights approximately to ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease, or up to the first break clause.

#### 2.17 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Income and Retained Earnings, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

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### 3. Judgments in applying accounting policies and key sources of estimation uncertainty

Critical accounting judgements and estimates used in the preparation of the financial statements are continually reviewed and revised as necessary.

Whilst every effort is made to ensure that such judgements and estimates are reasonable, by their nature they are uncertain, and as such changes may have a material impact.

#### Key sources of estimation uncertainty

##### Revenue

##### *Revenue recognition – network commissions*

For certain transactions the MNOs, commission receivable on mobile phone connections depends on consumer behaviour after the point of sale. Further details of the judgement involved can be found within the accounting policies, and further details of estimates used to value commission receivable, carrying amounts at the balance sheet date, and effects on the current year income statement of changes in accounting policies/estimates can be found within the accounting policies.

The company consider the following with regards to revenue recognition:

- revenue share percentage – the percentage of the consumer's spend (to the MNO) to which the company is entitled;
- minimum contract period – the length of contract entered into by the consumer;
- consumer default rate – rate at which consumers disconnect from the MNO;
- out-of-bundle spend – additional spend by the consumer measured as a % of total spend (which currently the company consider can not be measured reliably in advance); and
- spend beyond the initial contract period – period of time the consumer remains connected to the MNO after the initial contract term (which currently the company consider can not be measured reliably in advance).

Under certain arrangements with the MNO, the commission receivable for the monthly consumer connections to the MNOs depends on consumer behaviour after the point of connection. A discounted cash flow methodology is used to measure the fair value of the revenue and associated receivables in the month of connection, by estimating all future cash flows that will be received from the MNO and discounting these based on their timing of receipt. Subsequently network commission receivables are measured at the present value of the estimated future cash flows discounted using the effective interest rate determined in the month of connection. A discount rate of 2.5% is used.

##### *Revenue recognition – customer support agreements*

As set out in within the accounting policies, revenue relating to customer support agreements is recognised by reference to the stage of completion of the contractual terms at the balance sheet date. The stage of completion is estimated with reference to the proportion of the expected costs of fulfilling the company's total obligations under the agreements.

The estimation techniques used for the customer support, where there is an on going performance obligation, revenue and profit recognition is based on the costs incurred to deliver the on going service.

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 3. Judgments in applying accounting policies (continued)

#### Inventory

Inventories are held at the lower of cost and net realisable value. The provision represents the difference between the cost of stock and its estimated net realisable value, based on ageing and other factors. Calculation of these provisions requires judgements to be made which include forecast customer demand, the promotional, competitive and economic environment and inventory loss trends.

#### Key assumptions include:

##### Operating cash flows

The main assumptions, which are derived from past experience and external information, within the forecast operating cash flows include the achievements of future sale prices and volumes, material input costs, changes in sales mix and the level of ongoing capital expenditure.

##### Discount rates applied in management assessment of impairment considerations

The discount rate is a pre-tax adjusted discount rate and reflects management's estimate of the company's weighted average cost of capital.

##### Long term growth rates

The management forecasts are extrapolated using growth assumptions relevant for the business sector and are based on industry research.

##### Measuring the time value of money for asset and liability recognition

When the effect of the time value of money is material, amount of asset or liability recognised shall be at its present value required to settle the asset or liability. The discount rate used for this calculation is a pre-tax rate which reflects management's estimate of the current market assessment of the time value of money and risks specific to the asset or liability in question. A discount rate of 2.5% has been applied.

### 4. Turnover

Revenue predominantly comprises those revenue relating to commissions the MNOs, customer support agreements, delivery and installation, and product support.

All turnover arose within the United Kingdom and arose on the principal activities of the business..

### 5. Operating profit

The operating profit is stated after charging:

|                                                                                                                     | 2017    | 2016   |
|---------------------------------------------------------------------------------------------------------------------|---------|--------|
|                                                                                                                     | £       | £      |
| Depreciation of owned tangible fixed assets                                                                         | 100,962 | 72,302 |
| Amortisation of intangible assets                                                                                   | 68,886  | 68,885 |
| Defined contribution pension cost                                                                                   | 28,062  | -      |
| Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements | 12,500  | 9,500  |

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 6. Employees

Staff costs were as follows:

|                                     | 2017<br>£        | 2016<br>£        |
|-------------------------------------|------------------|------------------|
| Wages and salaries                  | 5,878,693        | 6,385,291        |
| Social security costs               | 854,990          | 632,325          |
| Cost of defined contribution scheme | 28,062           | -                |
|                                     | <u>6,761,745</u> | <u>7,017,616</u> |

The directors received remuneration during the year of £Nil (2016 - £Nil).

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

|                                | 2017<br>No. | 2016<br>No. |
|--------------------------------|-------------|-------------|
| Sales and administrative staff | <u>190</u>  | <u>218</u>  |

### 7. Interest receivable

|                                                | 2017<br>£      | As restated<br>2016<br>£ |
|------------------------------------------------|----------------|--------------------------|
| Interest receivable on accrued income balances | <u>442,532</u> | <u>276,507</u>           |

### 8. Interest payable and similar expenses

|                                                                 | 2017<br>£      | As restated<br>2016<br>£ |
|-----------------------------------------------------------------|----------------|--------------------------|
| Late interest due on corporation tax instalments                | 11,917         | -                        |
| Interest payable on payment on account and cashback liabilities | <u>408,277</u> | <u>278,011</u>           |

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 9. Taxation

|                                                  | 2017<br>£        | As restated<br>2016<br>£ |
|--------------------------------------------------|------------------|--------------------------|
| <b>Corporation tax</b>                           |                  |                          |
| Current tax on profits for the year              | 1,640,503        | 1,080,044                |
| Adjustments in respect of previous periods       | (1,090)          | (324,270)                |
|                                                  | <u>1,639,413</u> | <u>755,774</u>           |
| <b>Total current tax</b>                         | <u>1,639,413</u> | <u>755,774</u>           |
| <b>Deferred tax</b>                              |                  |                          |
| Origination and reversal of timing differences   | (458,463)        | 384,768                  |
| Adjustment in respect of prior periods           | (8,014)          | -                        |
|                                                  | <u>(466,477)</u> | <u>384,768</u>           |
| <b>Total deferred tax</b>                        | <u>(466,477)</u> | <u>384,768</u>           |
| <b>Taxation on profit on ordinary activities</b> | <u>1,172,936</u> | <u>1,140,542</u>         |

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.50% (2016 - 20%). The differences are explained below:

|                                                                                                               | 2017<br>£        | As restated<br>2016<br>£ |
|---------------------------------------------------------------------------------------------------------------|------------------|--------------------------|
| Profit on ordinary activities before tax                                                                      | <u>5,689,400</u> | <u>8,049,239</u>         |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.50% (2016 - 20%) | 1,109,355        | 1,609,848                |
| <b>Effects of:</b>                                                                                            |                  |                          |
| Expenses not deductible for tax purposes, other than goodwill amortisation and impairment                     | 5,301            | 21,407                   |
| Research and development                                                                                      | -                | (97,934)                 |
| Effect of rate change on deferred tax                                                                         | 67,384           | (68,509)                 |
| Adjustments to tax charge in respect of prior periods                                                         | (9,104)          | -                        |
| Prior year adjustment for R&D                                                                                 | -                | (324,270)                |
| <b>Total tax charge for the year</b>                                                                          | <u>1,172,936</u> | <u>1,140,542</u>         |

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 9. Taxation (continued)

#### Factors that may affect future tax charges

The UK corporation tax rate was 20% in the year to 31 March 2017 and this rate has been used for the purposes of preparing the tax disclosures. Following the Summer Budget 2015 announcements, there will be a further reduction in the main rate of corporation tax to 19% from 1 April 2017. The government also announced in the 2016 Budget that the UK corporation tax rate will decrease further to 17% from 1 April 2020. Accordingly deferred tax recognised in the accounts as at year end have been calculated using the 17% rate.

### 10. Dividends

|                                                              | 2017<br>£        | 2016<br>£        |
|--------------------------------------------------------------|------------------|------------------|
| <b>Ordinary shares</b>                                       |                  |                  |
| Dividend paid of £30,000 per share (2016: £36,667 per share) | 1,800,000        | 2,200,000        |
| <b>"A" Ordinary shares</b>                                   |                  |                  |
| Dividend paid of £27,500 per share (2016: £27,500 per share) | 1,650,000        | 1,650,000        |
|                                                              | <u>3,450,000</u> | <u>3,850,000</u> |

### 11. Intangible assets

|                       | Goodwill<br>£  |
|-----------------------|----------------|
| <b>Cost</b>           |                |
| At 1 October 2016     | 344,426        |
| At 30 September 2017  | <u>344,426</u> |
| <b>Amortisation</b>   |                |
| At 1 October 2016     | 275,540        |
| Charge for the year   | 68,886         |
| At 30 September 2017  | <u>344,426</u> |
| <b>Net book value</b> |                |
| At 30 September 2017  | <u>-</u>       |
| At 30 September 2016  | <u>68,886</u>  |

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 12. Tangible fixed assets

|                                     | Fixtures and fittings<br>£ | Office equipment<br>£ | Total<br>£ |
|-------------------------------------|----------------------------|-----------------------|------------|
| <b>Cost or valuation</b>            |                            |                       |            |
| At 1 October 2016                   | 373,598                    | 309,103               | 682,701    |
| Additions                           | 34,777                     | 36,511                | 71,288     |
| At 30 September 2017                | 408,375                    | 345,614               | 753,989    |
| <b>Depreciation</b>                 |                            |                       |            |
| At 1 October 2016                   | 194,522                    | 155,622               | 350,144    |
| Charge for the year on owned assets | 53,463                     | 47,498                | 100,961    |
| At 30 September 2017                | 247,985                    | 203,120               | 451,105    |
| <b>Net book value</b>               |                            |                       |            |
| At 30 September 2017                | 160,390                    | 142,494               | 302,884    |
| At 30 September 2016                | 179,076                    | 153,481               | 332,557    |

### 13. Stocks

|                                     | 2017<br>£ | 2016<br>£ |
|-------------------------------------|-----------|-----------|
| Finished goods and goods for resale | 297,263   | 5,424     |

Stock recognised in cost of sales during the year as an expense was £3,152,532 (2016 - £3,179,980).

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 14. Debtors

|                                     | 2017<br>£         | As restated<br>2016<br>£ |
|-------------------------------------|-------------------|--------------------------|
| <b>Due after more than one year</b> |                   |                          |
| Prepayments and accrued income      | 5,809,161         | 5,519,512                |
|                                     | <u>5,809,161</u>  | <u>5,519,512</u>         |
| <b>Due within one year</b>          |                   |                          |
| Trade debtors                       | 1,647,306         | 55,778                   |
| Other debtors                       | 148,140           | 29,940                   |
| Prepayments and accrued income      | 12,304,080        | 12,119,829               |
|                                     | <u>14,099,526</u> | <u>12,205,547</u>        |

The majority of trade and other debtors are non-interest bearing. Non-current receivables mainly comprise commission receivable on sales, as described within the accounting policies. Where the effect is material, trade and other receivables are discounted using discount rates which reflect the relevant costs of financing. The carrying amount of trade and other receivables approximates fair value.

### 15. Creditors: Amounts falling due within one year

|                                    | 2017<br>£         | As restated<br>2016<br>£ |
|------------------------------------|-------------------|--------------------------|
| Payments on account                | 2,957,389         | 3,522,062                |
| Trade creditors                    | 607,627           | 432,819                  |
| Corporation tax                    | 1,640,504         | 755,774                  |
| Other taxation and social security | 711,653           | 572,403                  |
| Other creditors                    | 2,219,147         | 2,291,989                |
| Accruals and deferred income       | 3,123,320         | 2,850,975                |
|                                    | <u>11,259,640</u> | <u>10,426,022</u>        |

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 16. Creditors: Amounts falling due after more than one year

|                              | 2017<br>£        | 2016<br>£        |
|------------------------------|------------------|------------------|
| Payments on account          | 1,687,365        | 1,969,903        |
| Other creditors              | 1,276,584        | 1,307,446        |
| Accruals and deferred income | 1,633,726        | 1,466,907        |
|                              | <u>4,597,675</u> | <u>4,744,256</u> |

### 17. Financial instruments

|                                                      | 2017<br>£          | As restated<br>2016<br>£ |
|------------------------------------------------------|--------------------|--------------------------|
| <b>Financial assets</b>                              |                    |                          |
| Financial assets that are measured at amortised cost | 14,468,367         | 3,364,084                |
|                                                      | <u>14,468,367</u>  | <u>3,364,084</u>         |
| <b>Financial liabilities</b>                         |                    |                          |
| Financial liabilities measured at amortised cost     | (9,150,452)        | (4,138,090)              |
|                                                      | <u>(9,150,452)</u> | <u>(4,138,090)</u>       |

Financial assets measured at amortised cost comprise trade debtors, other debtors, cash and cash equivalents.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors and bank loans.

### 18. Deferred taxation

|                           | 2017<br>£              |
|---------------------------|------------------------|
| At beginning of year      | (507,348)              |
| Charged to profit or loss | 466,477                |
| <b>At end of year</b>     | <u><u>(40,871)</u></u> |

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 18. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

|                                | 2017<br>£       | As restated<br>2016<br>£ |
|--------------------------------|-----------------|--------------------------|
| Accelerated capital allowances | (41,374)        | (53,422)                 |
| Short Term timing differences  | 503             | (453,926)                |
|                                | <u>(40,871)</u> | <u>(507,348)</u>         |

### 19. Share capital

|                                           | 2017<br>£  | 2016<br>£  |
|-------------------------------------------|------------|------------|
| <b>Allotted, called up and fully paid</b> |            |            |
| 60 Ordinary shares of £1 each             | 60         | 60         |
| 60 A Ordinary shares of £1 each           | 60         | 60         |
|                                           | <u>120</u> | <u>120</u> |

Ordinary Shares and A Ordinary Shares rank pari passu in all respects but shall constitute separate asset classes.

The holders of all ordinary shares are entitled to receive dividends as declared from time to time, ranked equally, pari passu as if the same constituted one class of share.

The holders of all ordinary shares carry equal distribution rights on return of assets on liquidation, reduction of capital or otherwise, the surplus assets of the company remaining after payment of its liabilities.

### 20. Reserves

#### Ordinary share capital

Called up share capital reserve represents the nominal value of the shares issued.

#### Profit and loss account

The profit and loss account represents cumulative profits of losses net of dividends paid and other adjustments.

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 21. Prior year adjustment

Historically accrued income was only recognised for the first 16 months of consumers contracts, no on going performance revenue was deferred for customer support revenue and payments on account were not shown separately within the balance sheet.

In the current year a change in accounting policy has been made to recognise revenue for the whole of the consumers contract when the consumers are connected to the MNO, to defer customer support revenue where there is an on going performance obligation and to recognise payments on account separately within the balance sheet. Accordingly, all comparatives have been restated.

For the year ended 30 September 2016 this resulted in debtors increasing to £17,725,059 from £1,751,460, creditors increasing to £15,170,278 from £1,866,832, provisions for liabilities increasing to £507,348 from 53,422, and carried forward retained earnings increasing to £4,066,924 from £1,850,577 (being an increase in the profit after tax for the year ended 30 September 2016 to £6,908,697 from £5,013,294, with an increase in brought forward retained earnings totalling £320,944).

There has been a prior year adjustment as a result of accounting classifications.

This has reclassified direct labour payroll costs totalling £5,478,608 which were previously included within administration costs and included these within cost of sales.

### 22. Pension commitments

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £28,062 (2016 - £Nil). Contributions totalling £6,648 (2016 - £Nil) were payable to the fund at the balance sheet date and are included in creditors.

### 23. Commitments under operating leases

At 30 September 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

|                                              | 2017<br>£      | 2016<br>£      |
|----------------------------------------------|----------------|----------------|
| Not later than 1 year                        | 152,386        | 118,750        |
| Later than 1 year and not later than 5 years | 196,793        | 420,000        |
| Later than 5 years                           | 4,377          | 275,000        |
|                                              | <b>353,556</b> | <b>813,750</b> |

# Aerial Direct Limited

## Notes to the Financial Statements For the Year Ended 30 September 2017

### 24. Related party transactions

#### Key management personnel

Key management personnel include all directors of the company, who together have authority and responsibility for planning, directing and controlling the activities of the company. The total compensation paid to key management personnel for services provided to the company was £Nil (2016: £Nil). There were no amounts outstanding as at the year end (2016: £Nil).

Other related parties are related to the company by virtue of common directorship and part common shareholders.

|                              | Sales<br>£ | Amount<br>owed from<br>related<br>party<br>£ | Purchases<br>£ | Amount<br>owed to<br>related<br>party<br>£ |
|------------------------------|------------|----------------------------------------------|----------------|--------------------------------------------|
| <b>Other related parties</b> |            |                                              |                |                                            |
| 2017                         | 3,183,084  | 168,495                                      | 18,540,718     | -                                          |
| 2016                         | 3,382,886  | 274,568                                      | 20,829,437     | 29,332                                     |

### 25. Post balance sheet events

The company purchased a freehold property during January 18 to relocate the head office for £4.5m (including refurbishment costs), to support the planned growth of the business going forward.

### 26. Controlling party

In the view of the directors, there is no controlling party. D Kilby and P Davis are persons with significant control by virtue of their shareholdings.