

Aerial Direct Limited

Annual Report and Financial Statements

Year Ended

30 September 2019

Company Number 08043921

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Aerial Direct Limited

Company Information

Directors	D Kilby D Ainslie
Registered number	08043921
Registered office	1 Barnes Wallis Road Fareham Hampshire PO15 5UA
Independent auditor	BDO LLP Arcadia House Maritime Walk Ocean Village Southampton SO14 3TL

Aerial Direct Limited

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Aerial Direct Limited

Strategic Report For the Year Ended 30 September 2019

Introduction

The directors present their strategic report together with the audited financial statements for the year ended 30 September 2019.

Business review

The Group 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 02 direct business partner in the UK.

The Group has seen the increase in revenue flow to the EBITDA line and deliver an increasing margin. This is despite investments being made in the business that won't deliver financial benefits until future years; most notably:

- Investment in fixed line service delivery which will increase our capacity to deliver in this market
- Investment in mid-market and enterprise field sales
- Investment in Internet based lead-generation to acquire and grow the customer base where full financial benefit doesn't get accrued until the re-sign of that customer
- Investment in technology that supports the operations of the business.

Achievements

2019 saw Aerial build on the foundations of the previous year with some significant achievements; most notably:

- **Completion of MBO** – On 5th October 2018 Aerial completed an MBO, which brought all of the Aerial Direct businesses (Aerial Telephones Limited, Aerial Direct Limited, Beebu Limited) into one group under the holding company of Aerial Group Limited and reduced the shareholding to David Ainslie and David Kilby.
- **Acquisition** - As part of the group strategy to expand its fixed line telephony offering, Aerial Group Limited completed on its first acquisition, IPCortex on 15th March 2019. IPCortex is a VoIP telephony system provider that will continue its channel-only route to market and existing partners will continue to benefit from being able to offer customers truly differentiated, feature-rich communications solutions, be that hosted, on-premise or virtual.

Investment in People

Aerial has continued to invest in people, in order to attract and retain good people, with headcount growth through the year rising from 186 to 222. Key things that we have done to make Aerial Direct a better place to work and to promote the health and well-being of our staff are:

- Investment in a modern working environment to make it a positive place to work
- Incentives run for all staff to celebrate success across the business
- Complimentary fruit delivery three times per week for all staff
- Complimentary on-site fitness classes with qualified PT Instructor
- Monthly food festivals held in the courtyard of the building to allow everyone to celebrate success

Aerial Direct Limited

Strategic Report (continued) For the Year Ended 30 September 2019

Technology

The Groups market leading performance has always been built on a foundation of good investment in technology; we continued in this vain in 2019 and through into 2020. We have looked to supplement our in-house-built solutions with best in class technology solutions/platforms that will deliver timely and accurate MI thus continuing to drive business performance.

Since the acquisition of IP Cortex, we have looked to accelerate our investment in that business. We have expanded the development and sales teams and look to develop further the sound technical platform that the existing business had developed prior to the acquisition. Major achievements that we have seen since the acquisition are:

- Microsoft Teams integration to enable full PBX functionality
- Integration with Zoho - a leading hosting CRM and BI solution
- Integrated mobile App to deliver a Unified Communications experience

Business Awards

Aerial Direct's position as a market leader in telecommunications offerings and our continued commitment to provide our customers with exceptional service is demonstrated by the awards that we have won in the period, most notably:

- The O2 Digital Excellence and Customer Excellence Award
- The Mobile Industry awards – Business Growth Award
- The Comms National Awards – Customer Service Award
- The Portsmouth News, Business Excellence Awards – Best Large Business
- The Solent Deal Awards – Mid Range Deal of the Year

Aerial Direct Limited

Strategic Report (continued) For the Year Ended 30 September 2019

Principal risks and uncertainties

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

1) Impact of Covid-19

Covid-19 has had a significant impact on the world economy. However, Aerial Group has successfully mobilised and enabled all staff to work from home; subsequently, the performance of the business has remained very strong throughout this period.

The financial statements have been prepared on the 'going concern' basis, as the directors have prepared detailed budgets for a period of at least 12 months from the date of signing the accounts, which show that the group is able to meet all of its liabilities as they fall due. However, it is acknowledged that the outbreak of COVID-19 has had a profound impact on the global and UK economy and businesses, therefore, the directors have produced a detailed going concern 'stress test' for Aerial Group Limited, for which further detail is given within note 2 to the financial statements. Having completed this process, the directors are confident of being able to trade for a period of at least 12 months from the approval of the financial statements.

2) Lack of diversification

The business has continued to develop its fixed line telephony business and grow its customer base in order to spread the risk away from its core activity of Mobile Telecommunications. The acquisition of IP Cortex was a key part of this strategy, as well as investment in the management team of this division. These actions have seen a reduction in the reliance of Mobile Telecommunications revenues.

Furthermore, the business is looking to cross-sell other business services into its client base (i.e. utilities and broader IT Services).

3) 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.

4) Liquidity and cash flow

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

Aerial Direct Limited

Strategic Report (continued) For the Year Ended 30 September 2019

Financial key performance indicators

The results for the year are set out within the statement of comprehensive income. This shows an increase in profitability for the year.

The EBITDA performance of the business is summarised below:

	2019	2018
Revenue	£30.2m	£21.6m
EBITDA	£9.2m	£6.7m
EBITDA %	30%	31%

The consolidated EBITDA of Aerial Direct and Aerial Telephones which we combined into Aerial Group during the year are summarised below:

	2019
Revenue	£31.5m
EBITDA	£8.8m
EBITDA %	27.9%

Business outlook

As already mentioned in this review, Covid-19 has had an unprecedented impact on the world economy which has had an inevitable impact of the Group's trading result. However, Aerial Group Limited has traded strongly and the management team will continue to push forward with the existing growth plans of the group, when trading conditions return to more normal conditions.

The key areas of Aerial are looking to grow are: -

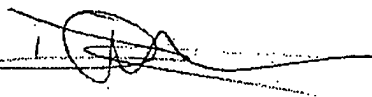
- To further consolidate our position as the leading O2 business partner, both through investment in our sales channel and through acquisition.
- To continue to develop our in-house CRM platform and look to supplement it with investment in 'best of breed' technologies, enabling further expansion of the business.
- To target further acquisitions to develop our proposition and build a path to deliver on our goal of being one of the largest Unified Communications companies in the UK.

This report was approved by the board on

25/06/2020

and signed on its behalf.

D Kilby
Director



Aerial Direct Limited

Directors' Report For the Year Ended 30 September 2019

The directors present their report and the financial statements for the year ended 30 September 2019.

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.

On 1 January 2019 the trade and assets of Aerial Telephones Limited, a fellow subsidiary of Aerial Group Limited were hived across to the company.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 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.

Results and dividends

The profit for the year, after taxation, amounted to £7,428,265 (2018 - £5,404,750).

A final dividend of £3,600,000 (2018 - £Nil) was declared and paid during the year.

Directors

The directors who served during the year were:

D Kilby
D Ainslie (appointed 5 October 2018)
P Davis (resigned 5 October 2018)

Future developments

Details of future developments are included in the strategic report.

Aerial Direct Limited

Directors' Report (continued) For the Year Ended 30 September 2019

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Post balance sheet events

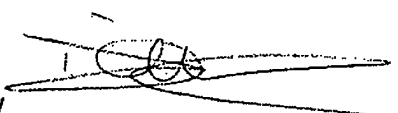
Since the balance sheet date the global disruption caused by COVID-19 has become ever more evident. The situation is fast changing and the scale of the impact on the global economy, on capital markets and on individual businesses remains uncertain.

The amounts stated in these financial statements reflect conditions existing as at the balance sheet date and no adjustments have been made as a result of COVID-19. The company has a strong balance sheet and significant liquid assets. The Directors' view on the company going concern has been disclosed in the strategic report and note 2 of the financial statements.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

This report was approved by the board on 25/06/2020 and signed on its behalf.


D Kilby
Director

Aerial Direct Limited

Independent Auditor's Report to the Members of Aerial Direct Limited

Opinion

We have audited the financial statements of Aerial Direct Limited ("the company") for the year ended 30 September 2019 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity, 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 2019 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.

Aerial Direct Limited

Independent Auditor's Report to the Members of Aerial Direct Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

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 directors' 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.

Aerial Direct Limited

Independent Auditor's Report to the Members of Aerial Direct Limited (continued)

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

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.

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.

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.



James Newman (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton
United Kingdom
Date: 25 June 2020

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

Aerial Direct Limited

Statement of Comprehensive Income For the Year Ended 30 September 2019

	Note	2019 £	2018 £
Turnover	4	30,230,229	21,571,781
Cost of sales		(16,840,661)	(11,214,350)
Gross profit		13,389,568	10,357,431
Administrative expenses		(5,205,953)	(3,740,836)
Other operating income		673,394	-
Operating profit	6	8,857,009	6,616,595
Interest receivable and similar income	9	634,091	481,176
Interest payable and similar charges	10	(550,331)	(434,892)
Profit before tax		8,940,769	6,662,879
Tax on profit	11	(1,512,504)	(1,258,129)
Profit for the financial year		7,428,265	5,404,750

There was no other comprehensive income for 2019 (2018 - £Nil).

The notes on pages 13 to 30 form part of these financial statements.

Aerial Direct Limited
Registered number: 08043921

Balance Sheet
As at 30 September 2019

	Note	2019 £	2019 £	Restated 2018 £	Restated 2018 £
Fixed assets					
Tangible assets	13		4,566,182		4,718,685
Current assets					
Stocks	14	277,288		116,647	
Debtors: amounts falling due after more than one year	15	8,438,437		7,230,351	
Debtors: amounts falling due within one year	15	21,777,539		13,651,821	
Cash at bank and in hand		2,411,388		3,382,547	
		<u>32,904,652</u>		<u>24,381,366</u>	
Creditors: amounts falling due within one year	16	(19,199,763)		(15,163,871)	
Net current assets			<u>13,704,889</u>		<u>9,217,495</u>
Total assets less current liabilities			<u>18,271,071</u>		<u>13,936,180</u>
Creditors: amounts falling due after more than one year	17		(5,667,647)		(4,143,210)
Provisions for liabilities					
Deferred tax	19		(158,000)		(16,844)
Net assets			<u>12,445,424</u>		<u>9,776,126</u>
Capital and reserves					
Called up share capital	20		120		120
Profit and loss account	21		12,445,304		9,776,006
Total equity			<u>12,445,424</u>		<u>9,776,126</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
25/6/2020

D Kilby
Director

The notes on pages 13 to 30 form part of these financial statements.

Aerial Direct Limited

Statement of Changes in Equity For the Year Ended 30 September 2019

	Called up share capital £	Profit and loss account £	Total equity £
At 1 October 2018	120	9,776,006	9,776,126
Comprehensive income for the year			
Profit for the year	-	7,428,265	7,428,265
Total comprehensive income for the year	-	7,428,265	7,428,265
Dividends paid	-	(4,758,967)	(4,758,967)
Total transactions with owners	-	(4,758,967)	(4,758,967)
At 30 September 2019	120	12,445,304	12,445,424

Statement of Changes in Equity For the Year Ended 30 September 2018

	Called up share capital £	Restated profit and loss account £	Restated total equity £
At 1 October 2017	120	4,371,256	4,371,376
Comprehensive income for the year			
Profit for the year	-	5,404,750	5,404,750
Total comprehensive income for the year	-	5,404,750	5,404,750
At 30 September 2018	120	9,776,006	9,776,126

The notes on pages 13 to 30 form part of these financial statements.

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

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 judgement in applying the company's accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41 to 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29A; and
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Aerial Group Limited as at 30 September 2019 and these financial statements may be obtained from 1 Barnes Wallis Road, Fareham, Hampshire, PO15 5UA.

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

2. Accounting policies (continued)

2.3 Going concern

The financial statements have been prepared on the going concern basis as the directors have prepared detailed budgets for a period of at least 12 months from the date of signing the accounts which show that the group is expected to be able to meet all its liabilities as they fall due. However, it is acknowledged that the global and UK outbreak of COVID-19 has had a profound impact on the global and UK economy and businesses.

The directors have produced a detailed going concern stress test for Aerial Group Limited, of which Aerial Direct Limited is a subsidiary. The conclusion of our stress test for Aerial Group Limited group is that the business will be able to continue trading for 12 months following the date of the financial statements, without exceeding current banking facilities and without breaching covenants. The company and the group are content that they are unlikely to require further funds to finance the group's activities going forward should the COVID-19 pandemic and consequential lockdown affect operations or impact market demand for a prolonged period in excess of 3 months.

The directors are confident of being able to trade for a period of at least 12 months from the approval of the financial statements and the Directors have therefore concluded that it is appropriate for the financial statements to be prepared on the going concern basis.

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

2. Accounting policies (continued)

2.4. 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:

- network commissions revenue is recognised with reference to the stage of completion of the service under the individual contract with the Mobile Network Operator ('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 ongoing performance obligation to provide customer support is recognised over the term of the contracts when the company delivers the performance of its contractual obligations. At the end deferred income predominantly related 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 customer contracts.

Network commissions:

The company operates under contracts with a 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.

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 recognises 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 consumer contract.

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

2. Accounting policies (continued)

2.4 Revenue (continued)

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 ongoing performance obligation to provide customer support to consumers and this is recognised over the term of 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 installments from end consumers over the life of the consumer contract. The gross commission receivable is any month is settled for certain MNO over the life of consumer contracts. Payments on account received in advance from the MNO are recognised within creditors as payments on accounts, there is no right of offset against the accrued income, and these are repaid over 16 months.

2.5 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

Research and development tax credits are included within other operating income within the statement of comprehensive income.

2.6 Interest income

Interest income is recognised in the statement of comprehensive income using the effective interest method.

2.7 Finance costs

Finance costs are charged to the statement of comprehensive income 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 2019

2. Accounting policies (continued)

2.8 Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the year in which they are incurred.

2.9 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 comprehensive income 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.

2.10 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, 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.

2.11 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 2019

2. Accounting policies (continued)

2.11 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:

Long-term leasehold property	- 4% per annum
Motor vehicles	- 25% per annum
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 comprehensive income.

2.12 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. Work in progress and finished goods include labour and attributable overheads.

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.

2.13 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.

2.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.15 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.

2.16 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

2. Accounting policies (continued)

2.17 Leased assets

Where assets are financed by leasing agreements that give rights approximately to ownership (finance leases), the assets are treated as if they had 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.

2.18 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.

2.19 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 recognised in full within other creditors and is settled on a monthly basis, with cashbacks being released when they lapse.

The cashback liability is 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.

2.20 Payments on account

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

2.21 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.

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

3. Judgements 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 with the MNO, 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 and carrying amounts at the balance sheet date 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 MNO 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 2019

3. Judgements in applying accounting policies (continued)

Discount rates applied in managements assessment of the present value of accrued income

The discount rate of 2.5% is a pre-tax adjusted discount rate and reflects management's estimate of the company's weighted average cost of capital.

Time value of money applied in managements assessment of the present value of liabilities

When the effect of the time value of money is material, the amount of the liability recognised shall be at its present value required to settle the 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 liability in question. A discount rate of 2.5% has been applied.

4. Turnover

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

On 5 October 2018, the company was acquired by Aerial Group Limited. As part of the acquisition, Aerial Telephones was novated to Aerial Direct Limited. The impact of the novation was the recognition of MNO revenue in Aerial Direct Limited from that date.

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

5. Other operating income

	2019 £	2018 £
R&D expenditure tax credits	481,835	-
Management charge in respect of commissions	191,559	-
	<u>673,394</u>	<u>-</u>

The directors have chosen to disclose the companies R&D expenditure tax credit now within other operating income.

6. Operating profit

The operating profit is stated after charging:

	2019 £	2018 £
Depreciation of owned tangible fixed assets	358,877	133,388
Defined contribution pension cost	132,198	58,928
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	20,000	13,450
Other operating lease rental	<u>163,573</u>	<u>252,537</u>

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

7. Employees

Staff costs were as follows:

	2019 £	2018 £
Wages and salaries	8,586,710	6,453,691
Social security costs	946,140	693,056
Cost of defined contribution scheme	132,198	58,928
	<u>9,665,048</u>	<u>7,205,675</u>

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

	2019 No.	2018 No.
Sales and administration staff	<u>222</u>	<u>186</u>

8. Directors' remuneration

	2019 £	2018 £
Directors' emoluments	366,556	-
Company contributions to money purchase pension schemes	1,719	-
	<u>368,275</u>	<u>-</u>

Directors' remuneration in the year ending 30 September 2018 was paid through Aerial Telephones Limited.

The highest paid director received remuneration of £201,301 (2018 - £NIL).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £860 (2018 - £NIL).

9. Interest receivable and similar income

	2019 £	2018 £
Interest receivable on accrued income balances	<u>634,091</u>	<u>481,176</u>

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

10. Interest payable and similar charges

	2019 £	2018 £
Interest payable on payment on account and cashback liabilities	489,932	400,198
Bank interest	41,677	34,694
Late interest due on corporation tax installments	18,722	-
	<u>550,331</u>	<u>434,892</u>

11. Taxation

	2019 £	2018 £
Corporation tax		
Current tax on profits for the year	1,491,231	1,296,121
Adjustments in respect of previous periods	(120,190)	(13,965)
Total current tax	<u>1,371,041</u>	<u>1,282,156</u>
Deferred tax		
Origination and reversal of timing differences	29,379	(23,976)
Adjustments in respect of prior periods	112,084	(51)
Total deferred tax	<u>141,463</u>	<u>(24,027)</u>
Taxation on profit on ordinary activities	<u>1,512,504</u>	<u>1,258,129</u>

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - lower than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £	2018 £
Profit on ordinary activities before tax	8,940,769	6,662,879
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	1,698,746	1,265,947
Effects of:		
Expenses not deductible for tax purposes	46,394	3,377
Adjustments to tax charge in respect of prior periods	(8,106)	(14,016)
Effect of rate change on deferred tax	(3,457)	2,821
Non-taxable income	(91,552)	-
Group relief	(129,521)	-
Total tax charge for the year	1,512,504	1,258,129

Factors that may affect future tax charges

The UK corporation tax rate was 19% for the year ended 30 September 2019 and this rate has been used for the purposes of preparing the tax disclosures. The 2016 Budget announced that the UK corporation tax rate would decrease to 17% from 1 April 2020. In the March 2020 Budget, it was announced that the corporation tax rate would remain 19% and that the reduction on 1 April 2020 would no longer be coming into force. As the substantively enacted rate at the year end was 17%, deferred tax has been recognised in the accounts at this rate until the Finance Act 2020 has received Royal Assent.

12. Dividends

	2019 £	2018 £
Ordinary shares		
Dividend paid of £4,108,967 (2018 - £Nil)	4,758,967	-

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

13. Tangible fixed assets

	Long-term leasehold property £	Motor vehicles £	Fixtures and fittings £	Office equipment £	Total £
Cost or valuation					
At 1 October 2018	3,814,494	-	645,070	389,408	4,848,972
Additions	8,852	-	34,667	159,252	202,771
Transfers intra group	-	3,603	-	-	3,603
At 30 September 2019	<u>3,823,346</u>	<u>3,603</u>	<u>679,737</u>	<u>548,660</u>	<u>5,055,346</u>
Depreciation					
At 1 October 2018	12,097	-	67,536	50,654	130,287
Charge for the year	72,874	1,201	134,261	150,541	358,877
At 30 September 2019	<u>84,971</u>	<u>1,201</u>	<u>201,797</u>	<u>201,195</u>	<u>489,164</u>
Net book value					
At 30 September 2019	<u>3,738,375</u>	<u>2,402</u>	<u>477,940</u>	<u>347,465</u>	<u>4,566,182</u>
At 30 September 2018	<u>3,802,397</u>	<u>-</u>	<u>577,534</u>	<u>338,754</u>	<u>4,718,685</u>

14. Stocks

	2019 £	2018 £
Finished goods and goods for resale	277,288	116,647
	<u>277,288</u>	<u>116,647</u>

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

15. Debtors

	2019 £	2018 £
Due after more than one year		
Prepayments and accrued income	<u>8,438,437</u>	<u>7,230,351</u>
	2019 £	2018 £
Due within one year		
Trade debtors	815,959	365,222
Amounts owed by group undertakings	4,706,858	-
Amounts owed from related companies	-	248,464
Other debtors	5,082	351,327
Prepayments and accrued income	<u>16,249,640</u>	<u>12,686,808</u>
	<u>21,777,539</u>	<u>13,651,821</u>

The majority of trade and other debtors are non-interest bearing. Debtors due after more than one year 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.

16. Creditors: amounts falling due within one year

	2019 £	As restated 2018 £
Bank loans	-	1,154,589
Other loans	1,140,273	-
Payments on account	5,426,834	4,792,225
Trade creditors	1,898,165	661,062
Amounts owed to group undertakings	1,842,933	-
Corporation tax	1,295,396	1,101,999
Other taxation and social security	1,325,548	919,017
Other creditors	3,489,962	3,262,532
Accruals and deferred income	<u>2,780,652</u>	<u>3,272,447</u>
	<u>19,199,763</u>	<u>15,163,871</u>

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

17. Creditors: amounts falling due after more than one year

	2019 £	As restated 2018 £
Bank loans	-	929,263
Other loans	451,028	-
Payments on account	354,306	280,899
Other creditors	2,475,664	971,245
Accruals and deferred income	2,386,649	1,961,803
	<u>5,667,647</u>	<u>4,143,210</u>

Bank loans were repaid on 5 October 2019 and due in less than one year amounted to £Nil (2018 - £1,154,589), 1-2 years being £Nil (2018 - £56,054), and 2-5 years being £Nil (2018 - £873,592).

18. Financial instruments

	2019 £	2018 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>32,398,484</u>	<u>24,253,544</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(22,246,466)</u>	<u>(11,356,504)</u>

Financial assets measured at amortised cost comprise trade debtors, amounts owed from related companies, other debtors, accrued income and cash and cash equivalents.

Financial liabilities measured at amortised cost comprise bank loans, payments on account, trade creditors, other creditors and accruals.

19. Deferred taxation

	2019 £
At beginning of year	16,844
Charged to profit or loss	141,156
At end of year	<u><u>158,000</u></u>

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

19. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	2019 £	2018 £
Accelerated capital allowances	158,000	17,399
Short Term timing differences	-	(555)
	<u>158,000</u>	<u>16,844</u>

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

20. Share capital

	2019 £	2018 £
Allotted, called up and fully paid		
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.

21. Reserves

The company's capital and reserves are as follows:

Called up share capital

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

Profit and loss account

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

22. Prior year adjustment

In the prior year and the year ending 30 September 2017 there was an error in respect of cashback liabilities. As the error was material, the comparative information has been restated.

The impact was to increase cashback liabilities by £942,012 and reduce opening reserves brought forward at 1 October 2018 by £942,012.

The corporation tax impact of the error was £180,000 and the comparative information has been restated in this respect. The impact was to decrease the corporation tax liability at 30 September 2017 by £180,000 and to increase brought forward reserves at 1 October 2018 by £180,000.

23. 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 £132,198 (2018 - £58,928). There were no contributions payable to the fund at the balance sheet date (2018 - £Nil).

Aerial Direct Limited

Notes to the Financial Statements For the Year Ended 30 September 2019

24. Commitments under operating leases

At 30 September 2019 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2019 £	2018 £
Not later than 1 year	167,061	128,546
Later than 1 year and not later than 5 years	138,696	127,165
	<u>305,757</u>	<u>255,711</u>

25. Related party transactions

The company has taken advantage of the exemption available in Section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company or any wholly owned subsidiary undertaking of the group.

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 are disclosed in note 8. There were no amounts outstanding as at the year end.

26. Post balance sheet events

Since the balance sheet date the global disruption caused by COVID-19 has become ever more evident. The situation is fast changing and the scale of the impact on the global economy, on capital markets and on individual businesses remains uncertain.

The amounts stated in these financial statements reflect conditions existing as at the balance sheet date and no adjustments have been made as a result of COVID-19. The company has a strong balance sheet and significant liquid assets. The Directors' view on the company going concern has been disclosed in the strategic report and note 2 of the financial statements.

27. Controlling party

From 1 October 2018 to 5 October 2018, the company was under the control of the directors.

From 5 October 2018, the company's immediate and ultimate parent undertaking is Aerial Group Limited, a company incorporated in England and Wales. The ultimate controlling party of Aerial Group Limited is Mr D Kilby by virtue of his shareholding.