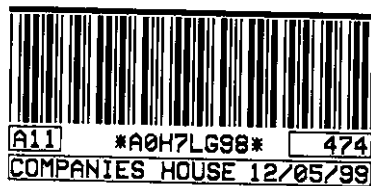


TELECOM *plus* PLC  
REPORT AND ACCOUNTS  
YEAR ENDED 31 MARCH 1999



PANNELL KERR FORSTER  
Chartered Accountants

TELECOM *plus* PLC  
REPORT AND ACCOUNTS  
YEAR ENDED 31 MARCH 1999  
Company number 3263464

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TELECOM *plus* PLC  
CHAIRMAN'S STATEMENT

I am pleased to report a year of exceptional growth across all our principal activities, with overall turnover up 470% compared with the previous period.

Our customer base has been growing steadily throughout the year with the turnover of our Service Provision business increasing by 64% to over £1.5 million during the last 3 months. The number of minutes billed rose from 4.2m in December 1998 to over 10.3m in March 1999. This aspect of our business moved into profit during the quarter ended 31 March 1999, and is expected to make a growing contribution towards the costs of acquiring new customers during the current year.

Our Distribution business also broke new records during the last 3 months, with over 15,000 new Service Application Forms received during the period compared with some 10,000 the previous quarter. The introduction of number portability for mobile phone users in January 1999 and the introduction of a new entry-level handset in March 1999 has led to a substantial increase in the number of new Mobile *plus* customers joining us each week.

Notwithstanding that many service providers choose to capitalise the investment in their subscriber base onto the face of their balance sheet, we have chosen to charge all costs relating to generating new customers through the profit and loss account. Our customer base has, I believe, a substantial value which is not reflected in the balance sheet at the year-end.

Our internal systems are performing well, and we continue to increase our staffing levels to support the significant growth being achieved. We have invested substantial resources in developing a unique computerised customer administration and convergent billing system to deal with the specific needs of the businesses in which we operate. We believe the system we have developed gives us a significant edge over our competitors in terms of a lower overhead base-cost, greater efficiency and the ability to provide a cost effective yet enhanced level of customer care and support.

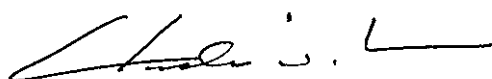
We now have over 50 full time employees, and I would like to take this opportunity to thank them for their commitment and support during a period of extremely rapid growth.

I believe it is important that all employees who are contributing to the success of the Company should have the opportunity to share in that success. During the year the Company issued Share Options over 1,325,000 shares to 40 members of staff at every level within the Company.

The Company continues to deliver a steadily rising monthly income stream to the growing number of active Distributors who are making a consistent effort to develop their Telecom *plus* business. Share Options over 1 million shares were issued to more than 400 Distributors during the course of last year under the Independent Distributor Share Option Scheme.

The Company has recently announced an issue of new shares to raise up to £5m of new Capital, which will enable the Company to fund a further increase in the rate at which new customers are acquired.

I remain increasingly confident in the prospects for the Company.



Charles Wigoder  
Chairman

6 May 1999

**TELECOM *plus* PLC  
DIRECTORS REPORT  
YEAR ENDED 31 MARCH 1999**

The directors have pleasure in presenting their report and the audited financial statements for the year ended to 31 March 1999.

#### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Company is the supply of fixed wire and mobile telecommunication services to residential and small business customers who are acquired through a network of independent distributors.

The second year of trading has seen the introduction of a mobile telephone service and prepaid telephone cards. It has also seen the implementation of new billing software and the development and implementation of a new system for the maintenance of independent distributor records and the payment of their commission.

#### **RESULTS AND DIVIDENDS**

The loss for the year was £1,134,467, which has been transferred to reserves. No dividends were paid or proposed during the period.

#### **DIRECTORS**

The names of directors who served during the year and their interests at the year end are:

| <u>Name</u>         | <u>Date of appointment</u> | <u>Date of resignation</u> | <u>Ordinary 5p shares held at</u> |                      |
|---------------------|----------------------------|----------------------------|-----------------------------------|----------------------|
|                     |                            |                            | <u>31 March 1999</u>              | <u>31 March 1998</u> |
| Graham Bell         | 5 May 1998                 |                            | NIL                               | NIL                  |
| John Levin          | 7 February 1997            |                            | 30,000                            | 7,500                |
| Christopher Lorigan | 3 April 1997               | 12 August 1998             | n/a                               | 289,973              |
| Richard Michell     | 3 April 1997               |                            | 30,000                            | NIL                  |
| Peter Nutting       | 3 April 1997               |                            | 936,000                           | 456,000              |
| Charles Wigoder     | 13 February 1998           |                            | 16,978,141                        | 16,978,141           |

#### **CREDITORS PAYMENT POLICY**

It is the policy of the company in the year to 31 March 2000 to pay all suppliers according to the terms agreed. In the period to 31 March 1999 the company settled outstanding balances on average within 71 days of the date of invoice (1998: 82 days).

#### **INFORMATION TECHNOLOGY AND THE YEAR 2000**

The company has received warranties from all suppliers of computer software that their products will be unaffected by the change of date from the year 1999 to 2000. All software and hardware has been purchased new and within the last year and the directors believe the company's systems will not be vulnerable to the year 2000. The directors will however continue to review the company's exposure to this problem, particularly as regards outside suppliers.

TELECOM *plus* PLC  
DIRECTORS REPORT  
YEAR ENDED 31 MARCH 1999

**FUTURE DEVELOPMENTS**

The Company is issuing an Offer for Subscription of up to 2,650,000 Units, each comprising 3 New Ordinary Shares of 5p each and £1 of 9.5 per cent redeemable convertible loan stock, at a price of 190p per Unit. If approved at the forthcoming Extraordinary General Meeting, and if fully subscribed, this issue will raise £5 million before expenses.

**AUDITORS**

A resolution to reappoint Pannell Kerr Forster as auditors will be proposed at the annual general meeting.

By Order of the Board



Richard Michell  
Company Secretary

6 May 1999

TELECOM *plus* PLC  
STATEMENT OF DIRECTORS' RESPONSIBILITIES  
REPORT AND ACCOUNTS  
YEAR ENDED 31 MARCH 1999

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**AUDITORS' REPORT TO THE MEMBERS OF  
TELECOM *plus* PLC**

We have audited the financial statements on pages 6 to 15 which have been prepared under the accounting policies set out on page 9.

**Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 1999 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Pannell Kerr Forster*

**PANNELL KERR FORSTER**  
Chartered Accountants  
Registered Auditors

London

6 May 1999

**TELECOM *plus* PLC**  
**PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 MARCH 1999**

|  |              | <u>1999</u>        | <u>Period from<br/>9 October 1996<br/>to 31 March 1998</u> |
|--|--------------|--------------------|--|
|  | <u>Notes</u> | £                  | £  |
| Turnover   | 2            | 6,226,567          | 1,323,358  |
| Cost of sales  |              | (4,749,801)        | (883,602)  |
| <b>Gross profit</b>                                    |              | <u>1,476,766</u>   | <u>439,756</u>   |
| Sales and marketing costs                              |              | (728,620)          | (475,923)  |
| Administrative expenses                                |              | (1,872,659)        | (1,608,472)  |
| Operating loss   |              | <u>(1,124,513)</u> | <u>(1,644,639)</u>   |
| Interest receivable                                    |              | 15,300             | 14,799   |
| Interest payable                                       | 6            | (25,254)           | -  |
| <b>Loss on ordinary activities<br/>before taxation</b> | 3            | <u>(1,134,467)</u> | <u>(1,629,840)</u>   |
| Tax on loss on ordinary activities                     | 7            | -                  | -  |
| Retained loss carried forward                          | 14           | <u>(1,134,467)</u> | <u>(1,629,840)</u>   |
| Basic loss per share                                   | 18           | (2.7)p             | (12.2)p  |
| Diluted loss per share                                 | 18           | (2.7)p             | (12.2)p  |

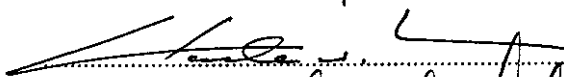
Turnover and operating loss derive entirely from continuing operations.

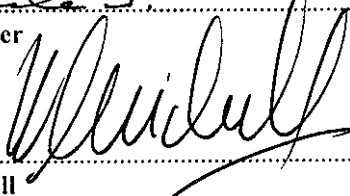
The company has no recognised gains or losses other than the loss for the period.

**TELECOM *plus* PLC**  
**BALANCE SHEET**  
**AS AT 31 MARCH 1999**

|  | <u>Notes</u> | £           | <u>1999</u> | £           | <u>1998</u> | £        |
|--|--------------|-------------|-------------|-------------|-------------|----------|
| <b>FIXED ASSETS</b>                          |              |             |             |             |             |          |
| Tangible assets                              | 8            |             | 331,998     |             | 75,691      |          |
| <b>CURRENT ASSETS</b>                        |              |             |             |             |             |          |
| Stocks                                       | 9            | 463,733     |             | 364,844     |             |          |
| Debtors                                      | 10           | 1,608,129   |             | 360,320     |             |          |
| Cash at bank and in hand                     |              | 351,289     |             | 406,408     |             |          |
|  |              | <hr/>       |             | <hr/>       |             |          |
|  |              | 2,423,151   |             | 1,131,572   |             |          |
| <b>CREDITORS</b>                             |              |             |             |             |             |          |
| Amounts falling due within one year          | 11           | (2,311,365) |             | (1,176,212) |             |          |
|  |              | <hr/>       |             | <hr/>       |             |          |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>      |              |             | <hr/>       | 111,786     |             | (44,640) |
|  |              |             |             | <hr/>       |             |          |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              |             | 443,784     |             | 31,051      |          |
| <b>CREDITORS</b>                             |              |             |             |             |             |          |
| Amounts falling due after more than one year | 12           |             | (162,415)   |             | (12,020)    |          |
|  |              |             | <hr/>       | 281,369     |             | 19,031   |
|  |              |             | <hr/>       | <hr/>       |             | <hr/>    |
| <b>CAPITAL AND RESERVES</b>                  |              |             |             |             |             |          |
| Called up share capital                      | 13           |             | 2,134,359   |             | 1,050,054   |          |
| Share premium account                        | 14           |             | 1,185,737   |             | 873,237     |          |
| Profit and loss account                      | 14           |             | (3,038,727) |             | (1,904,260) |          |
|  |              |             | <hr/>       | <hr/>       |             | <hr/>    |
| <b>SHAREHOLDERS' FUNDS</b>                   | 15           |             | 281,369     |             | 19,031      |          |
|  |              |             | <hr/>       | <hr/>       |             | <hr/>    |

Approved by the board on 6 May 1999.

  
 ..... Director  
 Charles Wigoder

  
 ..... Director  
 Richard Michell

TELECOM *plus* PLC  
CASH FLOW STATEMENT  
YEAR ENDED 31 MARCH 1999

|   | <u>Notes</u> | <u>1999</u><br>£ | <u>Period from</u><br>9 October 1996 to<br>31 March 1998<br>£ |
|---|--------------|------------------|---|
| <b>Reconciliation of operating loss to net cash outflow from operating activities</b> |              |                  |   |
| Operating loss  |              | (1,124,513)      | (1,644,639)   |
| Depreciation  |              | 88,179           | 15,161  |
| Increase in stocks  |              | (98,889)         | (364,844)   |
| Increase in debtors   |              | (1,247,809)      | (360,320)   |
| Increase in creditors   |              | 1,033,865        | 1,166,596   |
|   |              | <hr/>            | <hr/>   |
| Net cash outflow from operating activities  |              | (1,349,167)      | (1,188,046)   |
| <br><b>CASH FLOW STATEMENT</b>  |              |                  |   |
| Net cash outflow from operating activities  |              | (1,349,167)      | (1,188,046)   |
| Returns on investments and servicing of finance                                       | 19           | (9,954)          | 14,799  |
| Capital expenditure   | 19           | (7,834)          | (58,798)  |
|   |              | <hr/>            | <hr/>   |
|   |              | (1,366,955)      | (1,232,045)   |
| Financing   | 19           | 1,311,836        | 1,638,453   |
|   |              | <hr/>            | <hr/>   |
| (Decrease)/Increase in cash   |              | (55,119)         | 406,408   |
|   |              | <hr/> <hr/>      | <hr/> <hr/>   |
| <br><b>Reconciliation of net cash flow to movement in net funds</b>                   |              |                  |   |
| (Decrease)/Increase in cash   | 20           | (55,119)         | 406,408   |
| Cash outflow from capital element of hire purchase contract repayments                |              | 84,969           | 10,417  |
|   |              | <hr/>            | <hr/>   |
| Change in net funds resulting from cash flows   |              | 29,850           | 416,825   |
| New hire purchase contracts   |              | (336,954)        | (32,053)  |
|   |              | <hr/>            | <hr/>   |
| Movement in net funds for the year  |              | (307,104)        | 384,772   |
| Net funds at 1 April 1998   |              | 384,772          | -   |
|   |              | <hr/>            | <hr/>   |
| Net funds at 31 March 1999  |              | 77,668           | 384,772   |
|   |              | <hr/> <hr/>      | <hr/> <hr/>   |

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 1999**

**1 ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the accounts of the company are described below.

**(a) Basis of accounting**

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

**(b) Going concern**

The company has made a loss of £1,134,467 in the year ended 31 March 1999.

The Directors have reviewed the company's forecast trading and cash flows for the period to 31 March 2000 and are satisfied that the company has sufficient working capital for that period. For this reason they are satisfied that it is appropriate to prepare the accounts on a going concern basis.

**(c) Depreciation**

Depreciation is provided on all tangible fixed assets calculated to write off the cost less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:-

|                               |                       |
|-------------------------------|-----------------------|
| Leasehold improvements        | – three years         |
| Computer and office equipment | – three to five years |
| Motor vehicles                | – four years          |

**(d) Stocks**

Stocks are stated at the lower of cost and net realisable value.

**(e) Deferred taxation**

Provision is made for deferred tax, using the liability method to the extent that it is probable that a liability will crystallise.

**(f) Turnover**

Turnover comprises the value of sales (excluding VAT) of goods and services in the normal course of business.

**(g) Hire purchase and leasing contracts**

Fixed assets acquired under hire purchase agreements are capitalised and related obligations included in creditors. The interest element of the rental obligation is charged to the profit and loss account over the period of the contract.

All operating lease rentals are charged to the profit and loss account over the term of the lease on a straight line basis.

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 1999**

**2 TURNOVER AND SEGMENTAL ANALYSIS**

The activity of the Company divides into two segments, the Distribution Business, which is responsible for obtaining new Customers, and the Service Provision Business, which supplies airtime and value added services to those Customers. All of its activities are carried out in the UK.

|                          | <u>1999</u> | <u>Period from<br/>9 October 1996<br/>to 31 March 1998</u> |
|--------------------------|-------------|--|
|                          | £           | £  |
| <i>Service Provision</i> |             |  |
| Turnover                 | 3,616,990   | 423,091  |
| Operating loss           | (497,937)   | (1,412,164)  |
| Net assets               | 97,700      | 454,939  |
| <br>                     |             |  |
| <i>Distribution</i>      |             |  |
| Turnover                 | 2,609,577   | 900,267  |
| Operating loss           | (626,576)   | (232,475)  |
| Net assets               | 183,669     | (435,908)  |

**3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

The loss on ordinary activities before taxation is stated after charging:

|  |   |        |         |
|--|---|--------|---------|
| Depreciation   | - assets held under hire purchase contracts | 71,048 | 6,010   |
| Depreciation   | - owned assets                              | 17,131 | 9,151   |
| Operating lease rentals                                | - land and buildings                        | 75,727 | 27,207  |
|  | - other                                     | 29,458 | 20,620  |
| Auditors' remuneration                                 | - audit services                            | 11,500 | 5,000   |
|  | - non audit services                        | 1,370  | 25,091  |
| Costs associated with the formation of the company     |   | -      | 90,074  |
| Costs associated with the restructuring of the company |   | -      | 104,114 |

**4 STAFF COSTS**

|                       |         |         |
|-----------------------|---------|---------|
| Wages and salaries    | 859,135 | 414,941 |
| Social security costs | 83,688  | 34,463  |
|                       | 942,823 | 449,404 |

|  | <u>Number</u> | <u>Number</u> |
|--|---------------|---------------|
| Average number employed by the group during the period (excluding directors) | 33            | 7             |

**5 DIRECTORS' REMUNERATION**

The aggregate remuneration of the directors was as follows:

|                                 |         |         |
|---------------------------------|---------|---------|
|                                 | £       | £       |
| Salary, fees and other benefits | 190,061 | 290,696 |

One director has had options granted under the company's unapproved share option scheme.

TELECOM *plus* PLC  
 NOTES AND ACCOUNTING POLICIES  
 YEAR ENDED 31 MARCH 1999

|   |                            | Period from<br>9 October 1996 |                         |
|---|----------------------------|-------------------------------|-------------------------|
| 6 | INTEREST PAYABLE           | <u>1999</u>                   | <u>to 31 March 1998</u> |
|   |                            | £                             | £                       |
|   | On hire purchase contracts | 25,254                        | -                       |
|   |                            | <u>          </u>             | <u>          </u>       |

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

No tax charge arises in respect of losses incurred in the period. The company has tax losses carried forward as at 31 March 1999 of approximately £2.52m (1998 : £1.48m).

8 TANGIBLE FIXED ASSETS

|   | <u>Leasehold<br/>Improvements</u> | <u>Office Computer<br/>and Equipment</u> | <u>Motor<br/>Vehicles</u> | <u>Total</u>      |
|---|-----------------------------------|--|---------------------------|-------------------|
|   | £                                 | £  | £                         | £                 |
| <b>Cost</b>   |                                   |  |                           |                   |
| At 1 April 1998   | 17,978                            | 30,887                                   | 41,987                    | 90,852            |
| Additions   | 8,190                             | 293,289                                  | 59,299                    | 360,778           |
| Disposals   | (17,978)                          | (5,365)                                  | -                         | (23,343)          |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| At 31 March 1999  | 8,190                             | 318,811                                  | 101,286                   | 428,287           |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| <b>Depreciation</b>   |                                   |  |                           |                   |
| At 1 April 1998   | (3,907)                           | (5,037)                                  | (6,217)                   | (15,161)          |
| Charge for the year   | (2,928)                           | (67,708)                                 | (17,543)                  | (88,179)          |
| On disposals  | 5,471                             | 1,580                                    | -                         | 7,051             |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| At 31 March 1999  | (1,364)                           | (71,165)                                 | (23,760)                  | (96,289)          |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| <b>Net book value</b>   |                                   |  |                           |                   |
| At 31 March 1999  | 6,826                             | 247,646                                  | 77,526                    | 331,998           |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| At 31 March 1998  | 14,071                            | 25,850                                   | 35,770                    | 75,691            |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| <b>Assets acquired under hire purchase (included in above):</b> |                                   |  |                           |                   |
| <b>Cost</b>   | -                                 | 277,353                                  | 91,352                    | 368,705           |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| <b>Accumulated depreciation</b>                                 | -                                 | 58,774                                   | 14,023                    | 72,797            |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |
| <b>Net book value</b>   | -                                 | 218,579                                  | 77,329                    | 295,908           |
|   | <u>          </u>                 | <u>          </u>                        | <u>          </u>         | <u>          </u> |

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 1999**

| 9  | <b>STOCKS</b>   | <u>1999</u><br>£ | <u>1998</u><br>£ |
|----|---|------------------|------------------|
|    | Stocks comprise the following:                                      |                  |                  |
|    | Mobile phones, smart boxes and related equipment                    | 402,393          | 314,095          |
|    | Marketing material  | 61,340           | 50,749           |
|    |   | <hr/>            | <hr/>            |
|    |   | 463,733          | 364,844          |
|    |   | <hr/> <hr/>      | <hr/> <hr/>      |
| 10 | <b>DEBTORS</b>  |                  |                  |
|    | Trade debtors   | 40,908           | 148,046          |
|    | Other debtors   | 851,773          | 79,080           |
|    | Prepayments and accrued income                                      | 715,448          | 133,194          |
|    |   | <hr/>            | <hr/>            |
|    |   | 1,608,129        | 360,320          |
|    |   | <hr/> <hr/>      | <hr/> <hr/>      |
| 11 | <b>CREDITORS DUE WITHIN ONE YEAR</b>                                |                  |                  |
|    | Trade creditors   | 1,223,518        | 902,467          |
|    | Other taxation and social security                                  | 70,403           | 16,768           |
|    | Accruals and deferred income  | 906,238          | 247,361          |
|    | Obligations under hire purchase contracts                           | 111,206          | 9,616            |
|    |   | <hr/>            | <hr/>            |
|    |   | 2,311,365        | 1,176,212        |
|    |   | <hr/> <hr/>      | <hr/> <hr/>      |
|    | The hire purchase creditors are secured on the relevant assets.     |                  |                  |
| 12 | <b>CREDITORS DUE AFTER ONE YEAR</b>                                 |                  |                  |
|    | Obligations under hire purchase contracts                           | 162,415          | 12,020           |
|    |   | <hr/>            | <hr/>            |
|    | The total amounts due under hire purchase contracts are as follows: |                  |                  |
|    | Gross amount of payments falling due                                |                  |                  |
|    | - up to 1 year  | 139,822          | 11,203           |
|    | - 2 to 5 years  | 191,147          | 14,003           |
|    |   | <hr/>            | <hr/>            |
|    |   | 330,969          | 25,206           |
|    | Less: finance charges allocated to future periods                   | (57,348)         | (3,570)          |
|    |   | <hr/>            | <hr/>            |
|    | Net hire purchase payments included in creditors                    | 273,621          | 21,636           |
|    |   | <hr/> <hr/>      | <hr/> <hr/>      |
|    | Shown as  |                  |                  |
|    | Due within one year   | 111,206          | 9,616            |
|    | Due after one year  | 162,415          | 12,020           |
|    |   | <hr/>            | <hr/>            |
|    |   | 273,621          | 21,636           |
|    |   | <hr/> <hr/>      | <hr/> <hr/>      |

**TELECOM *plus* PLC**  
**NOTES AND ACCOUNTING POLICIES**  
**YEAR ENDED 31 MARCH 1999**

|    |   |                             |                             |
|----|---|-----------------------------|-----------------------------|
| 13 | <b>SHARE CAPITAL</b>                            | <u>1999</u>                 | <u>1998</u>                 |
|    |   | £                           | £                           |
|    | <b>Issued share capital</b>                     |                             |                             |
|    | Ordinary shares of 5p each                      |                             |                             |
|    | Authorised – 50,000,000                         | 2,500,000                   | 2,500,000                   |
|    |   | <u>                    </u> | <u>                    </u> |
|    | Allotted, called up and fully paid – 42,687,184 | 2,134,359                   | 1,050,054                   |
|    |   | <u>                    </u> | <u>                    </u> |

During the period shares were allotted fully paid for cash as follows:

On 7 April 1998            12,500,000 shares were allotted at 7½p

On 28 April 1998        9,186,114 shares were allotted at 5p

**Share options**

The company has an unapproved share option scheme under which options to subscribe for the company's shares have been granted to certain directors and employees.

During the period options were granted to employees over the following shares:  
1,065,000 shares at 22p exercisable between 15 July 2001 and 14 July 2005  
260,000 shares at 24.5p exercisable between 4 January 2002 and 3 January 2006

|    |   |                                      |  |                             |
|----|---|--------------------------------------|--|-----------------------------|
| 14 | <b>RESERVES</b>                                   | <u>Share<br/>Premium<br/>Account</u> | <u>Profit &amp;<br/>Loss<br/>Account</u> | <u>Total</u>                |
|    |   | £                                    | £  | £                           |
|    | As at 1 April 1998                                | 873,237                              | (1,904,260)                              | (1,031,023)                 |
|    | Premium on issue of shares                        | 312,500                              | -  | 312,500                     |
|    | Transfer from profit & loss account of the period | -                                    | (1,134,467)                              | (1,134,467)                 |
|    |   | <u>                    </u>          | <u>                    </u>              | <u>                    </u> |
|    | As at 31 March 1999                               | 1,185,737                            | (3,038,727)                              | (1,852,990)                 |
|    |   | <u>                    </u>          | <u>                    </u>              | <u>                    </u> |

|    |  |                             |                             |
|----|--|-----------------------------|-----------------------------|
| 15 | <b>RECONCILIATION OF MOVEMENTS IN<br/>EQUITY SHAREHOLDERS' FUNDS</b> | <u>1999</u>                 | <u>1998</u>                 |
|    |  | £                           | £                           |
|    | Loss for the financial period  | (1,134,467)                 | (1,904,260)                 |
|    | New shares issued, net of flotation costs                            | 1,396,805                   | 1,923,291                   |
|    | Balance at 1 April 1998  | 19,031                      | -                           |
|    |  | <u>                    </u> | <u>                    </u> |
|    | Balance at 31 March 1999   | 281,369                     | 19,031                      |
|    |  | <u>                    </u> | <u>                    </u> |

TELECOM *plus* PLC  
 NOTES AND ACCOUNTING POLICIES  
 YEAR ENDED 31 MARCH 1999

16 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Operating leases

The group is committed to make annual payments in respect of operating leases as follows:

|                  | <u>1999</u>                          |                   | <u>1998</u>                          |                   |
|------------------|--------------------------------------|-------------------|--------------------------------------|-------------------|
|                  | <u>Land &amp;<br/>buildings</u><br>£ | <u>Other</u><br>£ | <u>Land &amp;<br/>buildings</u><br>£ | <u>Other</u><br>£ |
| Leases expiring: |                                      |                   |                                      |                   |
| 2 to 5 years     | -                                    | 39,223            | 49,043                               | 55,927            |
| Over 5 years     | 73,500                               | -                 | -                                    | -                 |
|                  | <u>          </u>                    | <u>          </u> | <u>          </u>                    | <u>          </u> |

Capital commitments

At the year end the company is committed to entering into the purchase of motor vehicles for £43,000 under a hire purchase contract.

17 RELATED PARTY DISCLOSURES

The company has an agreement with Trialfile Limited, a company owned by Charles Wigoder, for the rent of premises, furniture and equipment at a cost of £85,500 per annum.

18 LOSS PER SHARE

The calculation of loss per share is based on a loss of £1,134,467 (1998: £1,629,840) and a weighted average of 41,604,241 (1998: 11,323,841) shares in issue. The weighted average number of shares in issue for the period ended 31 March 1998 has been restated to take into account the bonus element of the 1997/98 rights issue.

|                        | <u>1999</u>       | <u>1998</u>       |
|------------------------|-------------------|-------------------|
| Basic loss per share   | (2.7)p            | (12.2)p           |
| Diluted loss per share | (2.7)p            | (12.2)p           |
|                        | <u>          </u> | <u>          </u> |

TELECOM *plus* PLC  
 NOTES AND ACCOUNTING POLICIES  
 YEAR ENDED 31 MARCH 1999

19 ANALYSIS OF CASH FLOWS FOR HEADINGS  
 NETTED IN THE CASHFLOW

|   | <u>1999</u>      |             | <u>1998</u>      |
|---|------------------|-------------|------------------|
|   | £                | £           | £                |
| <b>Returns on investment and servicing of finance</b> |                  |             |                  |
| Bank interest received                                | 15,300           |             | 14,799           |
| Hire purchase interest paid                           | (25,254)         |             | -                |
|   | <hr/>            |             | <hr/>            |
|   |                  | (9,954)     | 14,799           |
|   |                  | <hr/> <hr/> | <hr/> <hr/>      |
| <b>Capital expenditure</b>                            |                  |             |                  |
| Purchase of tangible fixed assets                     | (24,127)         |             | (58,798)         |
| Sale of tangible fixed assets                         | 16,293           |             | -                |
|   | <hr/>            |             | <hr/>            |
|   |                  | (7,834)     | (58,798)         |
|   |                  | <hr/> <hr/> | <hr/> <hr/>      |
| <b>Financing</b>                                      |                  |             |                  |
| Issue of ordinary share capital                       | 1,396,805        |             | 1,765,208        |
| Expenses paid in connection with share issues         | -                |             | (116,338)        |
| Capital element of hire purchase repayments           | (84,969)         |             | (10,417)         |
|   | <hr/>            |             | <hr/>            |
| <b>Net cash inflow from financing</b>                 | <b>1,311,836</b> |             | <b>1,638,453</b> |
|   | <hr/> <hr/>      |             | <hr/> <hr/>      |

20 ANALYSIS OF CHANGES IN NET FUNDS

|                         | 31 March<br><u>1998</u> | <u>Cashflows</u> | <u>Other</u><br><u>changes</u> | 31 March<br><u>1999</u> |
|-------------------------|-------------------------|------------------|--------------------------------|-------------------------|
|                         | £                       | £                | £                              | £                       |
| Cash at bank            | 406,408                 | (55,119)         | -                              | 351,289                 |
| Hire purchase contracts | (21,636)                | 84,969           | (336,954)                      | (273,621)               |
|                         | <hr/>                   | <hr/>            | <hr/>                          | <hr/>                   |
|                         | 384,772                 | 29,850           | (336,954)                      | 77,668                  |
|                         | <hr/> <hr/>             | <hr/> <hr/>      | <hr/> <hr/>                    | <hr/> <hr/>             |