PhoneLink plc

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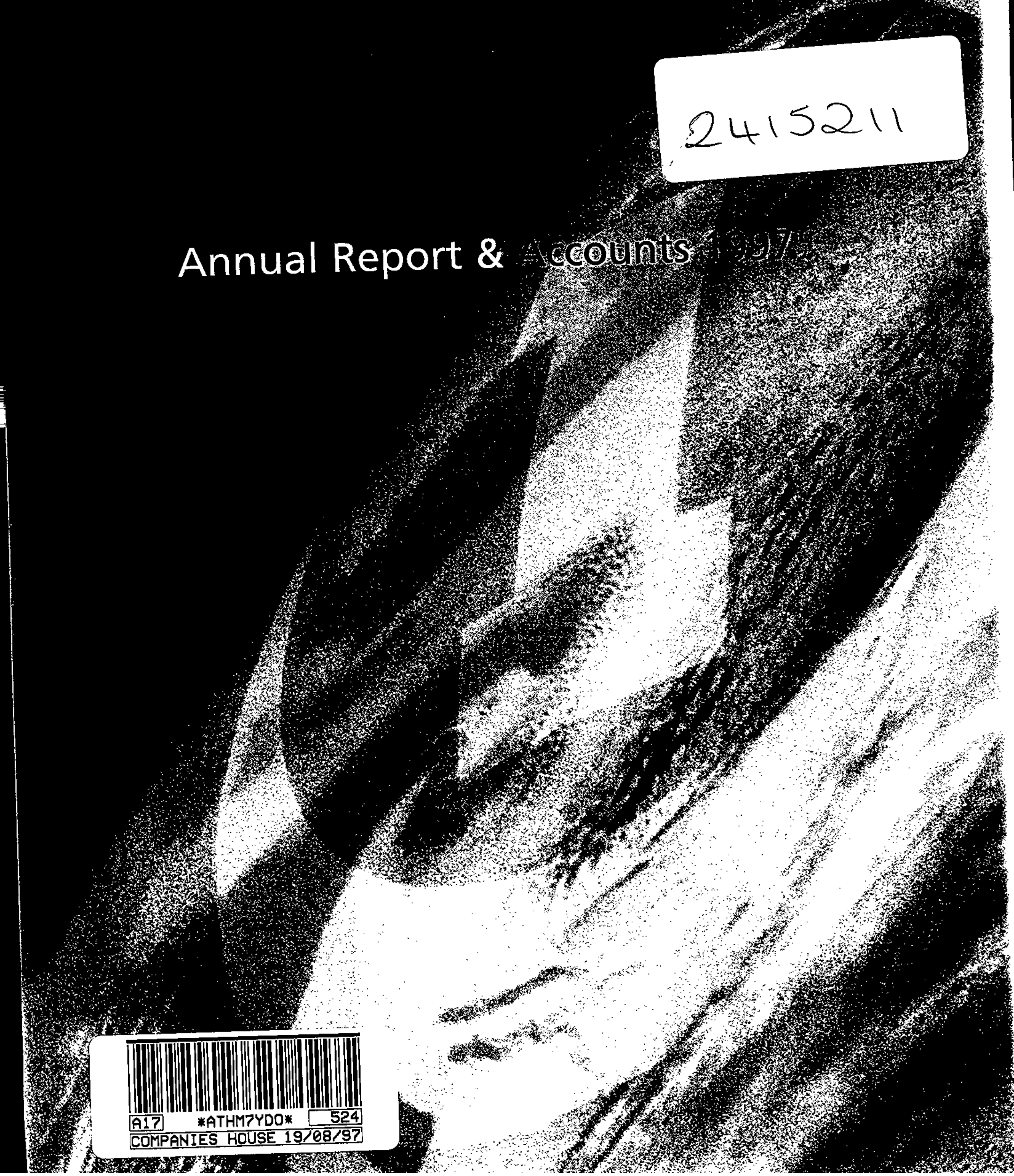

Annual Report & Accounts 1997

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Chairman's statement

This year the Company has sharpened its focus and, in addition to operating with a technology-led and product development emphasis, has become a more market-led and commercially driven business.

The process to achieve this, which commenced in July 1996 and gained momentum significantly towards the end of the financial year, has necessitated a major change in the management skills required by the business. Trevor Burke, who founded the Company and who has been responsible for the creation of its technological platform, has stepped down as Chief Executive and has become a non-executive director. He will continue to contribute positively to the business through his position on the Board.

Graham Ramsey joined PhoneLink as Chief Executive in January 1997 from United News and Media Corporation where he was Group Managing Director of United Advertising Publications with responsibility for titles such as Exchange and Mart. Since his arrival, Graham Ramsey has significantly reduced the cost base of the business and his evolving plans for growing turnover are rapidly taking shape. As a result, average monthly cash consumption from trading has reduced by 60% from £402,000 in the quarter to December 1996 to £160,000 in the quarter to June 1997. Further details are outlined in the Chief Executive's report which follows.

The Board was further strengthened in February 1997 by the appointment of Richard Reynolds, formerly a Director of GEC and Chairman of GPT, as a non-executive director.

Your Board believes that the prospects for the Company are encouraging. The business has made progress over the last 6 months by achieving significant cost reductions and implementing a major management restructuring. Revenue growth is now the top priority and a number of promising opportunities exist. We continue to evaluate these opportunities and I hope to be in a position to discuss these more fully at the half year stage. The balance sheet remains strong with cash and short term deposit balances of £9.3 million at 10 July 1997 and no debt.

Sir Gordon Brunton
Chairman

10 July 1997

During the six months since joining PhoneLink, I have introduced measures designed to bring the Company into profit.

It has been important that this objective is achieved in the shortest timescale without restricting the technical development necessary to exploit the electronic services market now and in the future. The strategy to achieve this comprises four phases which are as follows:

Phase 1 • Identify the strengths of the Company

Phase 2 • Rationalise the management and decision-making process

Phase 3 • Make cost saving efficiencies to reduce significantly cash consumption

Phase 4 • Grow turnover from existing businesses and identify new sustainable sources of revenue, including developing new alliances and partnerships where appropriate

I am pleased to report, as outlined below, that progress to date has been good and that Phases 1-3 are now complete. Work is continuing on Phase 4 of the strategy and I am encouraged by early progress.

Phase 1 - Identify the strengths of the company

The Company's key strengths are its first class technology and its high capacity systems and support infrastructure. Historically the Tel-Me business has been the main focus of attention. These strengths, however, apply equally across the whole Company and incorporate the DataCare business, technology licensing and facilities management as well as Tel-Me. Exciting opportunities exist in all of these areas of activity and each is of importance to the Company in terms of future potential.

Phase 2 - Rationalise the management and decision making process

In order to enable management to operate effectively, PhoneLink needed a more streamlined decision-making process.

In February 1997, the Company announced a rationalisation of its board of directors. The new structure, which saw a number of main board changes, achieves the objective of simplifying the decision-making process while making the best use of the skills available in the business.

The main board now comprises the Chief Executive and Finance Director together with four non-executive directors.

Phase 3 - Make cost saving efficiencies to reduce significantly cash consumption

Substantial overheads had been added to the business over the period since the initial launch of the Tel-Me product in 1994. My review during January and February 1997 indicated that a proportion of this overhead was no longer required and action was taken in February 1997.

The cost savings introduced represented approximately one third of overheads and took full effect from 1 April 1997. In addition, existing controls over expenditure and project approval were further tightened.

As a result, monthly cash consumption from trading has been reduced dramatically. During the first quarter to 30 June 1997, average monthly cash consumption from trading was £160,000 compared with £310,000 and £402,000 for the quarters to March 1997 and December 1996 respectively. These amounts include licence revenue of £72,000 per month received under the BT Contract which ended on 30 June 1997.

Trading activities now operate from a more efficient cost base. Further costs will only be incurred moving forward where these are clearly focused on growing turnover.

Phase 4 - Grow turnover from existing businesses and identify new sustainable sources of turnover

DataCare

DataCare provides a bureau telephone numbering service and is the longest established of PhoneLink's businesses. Using its technology, DataCare automatically searches telephone directory databases held by BT and matches telephone numbers to computerised name and address records supplied by customers. This service, which is used by a wide range of large organisations for telemarketing and debt recovery, performed well during the year, achieving an increase in turnover of 27% compared with the previous year.

DataCare continues to enjoy a leading position in its marketplace and has further increased its customer base during the year as demand has grown. The OFTEL deregulation of directory services in the UK which is to take place in the near future is also expected to create exciting opportunities for DataCare.

Tel-Me

The performance of Tel-Me since July 1996 when the decision to refocus on high value customers was announced has been slow. Despite this, the decision to refocus was undoubtedly the correct one and this strategy will now be vigorously pursued.

The success of this strategy will depend upon achieving the following objectives:

- Increasing the recruitment rate of new high value customer sites;
- Ensuring that Tel-Me is rolled out to many users at each site;
- Ensuring that the product content is strengthened and continuously improved to generate profitable usage revenues.

To achieve these the following action has been taken:

- In May of this year a new Tel-Me National Sales Manager was recruited to increase the customer recruitment rate. This highly experienced and professional individual will bring the necessary focus to the Tel-Me sales operation and is charged with driving sales forward.
- The Company is currently developing its first Web-based version of Tel-Me to compliment Tel-Me Version 4. This will allow those customers with corporate Intranets to roll Tel-Me out across their networks easily and cheaply.
- An exercise to identify and acquire further valuable content for the Tel-Me service is in progress.

Electronic commerce

The Company's Electronic Commerce platform will be operational by the end of summer 1997. The Company is working with Logitek on its first commercial electronic commerce application which will be to carry the computer products catalogue of the Vitec Division of Logitek Distribution Limited. This first application will be a controlled customer trial in partnership with Logitek. The platform will display the Vitec computer peripherals products to new and existing corporate customers and will allow those customers to purchase products electronically. The platform is expected to be incorporated into Tel-Me with an expanded product range when Version 4 is introduced.

Corporate solutions

The Company believes that there is significant potential in packaging its technology to suit particular customer requirements. A number of potential customers for these 'Corporate Solutions' have been identified.

Phase 4 - Developing new alliances and partnerships where appropriate

New alliances

Creating alliances and partnerships to increase sales both in the UK and overseas will continue to be an important component of PhoneLink's strategy. Those opportunities which offer the ability to expand the reach of the business and create real value in it will be actively pursued.

Existing alliances

Scottish Widows' Fund and Life Assurance Society

The Company announced in November 1996 that PhoneLink and the Scottish Widows' Fund and Life Assurance Society had formed a joint venture company 'The Electronic Market Limited'. The aim of the joint venture company is to combine PhoneLink's technology and Scottish Widows' customer base and marketing skills to provide a successful electronic shopping service to the consumer.

The joint venture began testing the market with the introduction of its first product, Freemail, in February 1997 and on 1 July 1997 appointed Moira Powley as full time Chief Executive. She is tasked with producing a business plan which will deliver a return on investment for both parties.

BT

The formal two year licensing agreement for Tel-Me signed with BT in 1995 came to an end on 30 June 1997. BT will continue to support the BT Tel-Me customer base in conjunction with PhoneLink.

PhoneLink's relationship with BT remains strong and we consider this ongoing relationship to be an important one.

Trading

The turnover and operating loss for the year were broadly the same as for the year to 31 March 1996 at £4.3 million and £6.9 million respectively. Retained losses were £6.2 million compared with £6.7 million last year as a result of higher interest receivable. As explained more fully in the Financial and Operating Review, underlying turnover associated with trading activities (discounting one-off technology licensing revenue) increased by 16% compared with 1996 and this trend has continued to date.

In February 1997, the Company announced its intention to make ambitious cost savings. I am pleased to report that these savings have been successfully implemented and maintained without adverse impact on trading or development activities. As a consequence, month on month losses have reduced significantly and the emphasis within the business is now firmly towards growing turnover from both existing and new areas of business.

The Company's balance sheet remained strong and consolidated cash balances at 31 March 1997 and 10 July 1997 were £9.6 million and £9.3 million respectively.

G Ramsey
Chief Executive

10 July 1997

The following review has been prepared in accordance with the recommendation of the Accounting Standards Board.

Overview

Group turnover for the year remained broadly the same as for the previous year at £4.3 million. The established businesses of DataCare and Tel-Me produced aggregate turnover up by 16% on last year, while revenue from technology licensing agreements declined by a comparable amount.

The gross margin on turnover improved from 39% in 1996 to 41% this year principally as a result of the change in sales mix.

Operating costs which were £8.5 million were also in line with those for the previous year, producing an operating loss of £6.9 million. The Group maintained its prudent policy of expensing all development and marketing costs through the profit and loss account as incurred during the year and these are included in operating costs.

An exercise to rationalise the management structure and reduce costs was announced in February 1997 and implemented in March 1997. The new financial year which commenced on 1 April 1997 benefits immediately from these savings. The impact on the year to 31 March 1997 of these savings was negligible. The full costs of the rationalisation were taken through the profit and loss account in the year to 31 March 1997.

Retained losses for the year were improved at £6.2 million compared with £6.7 million for the year to 31 March 1996 because of enhanced interest receivable on higher average cash balances.

Turnover

The principle components of turnover during the year were as follows:

DataCare

The DataCare bureau telephone numbering operation increased revenues by 27% in 1997 compared to 1996. DataCare has maintained its position as a leading supplier of telephone numbering services to the telemarketing, fund raising and debt recovery industries and was able to maintain good margins despite increased competition.

Tel-Me

The Company's Tel-Me product had a relatively flat year in terms of development of its markets, with net turnover increasing by 5% over that of 1996. In July last year the Company announced its decision to refocus the Tel-Me product away from the mass market and towards the higher value market. The higher value market was defined as that which is made up of those businesses with a propensity to subscribe for multiple licences and use the software on a regular basis.

The process undertaken to refocus the product towards the new target market involved research to identify the market and retraining and replacement of the sales force where necessary. This was completed in January 1997 and the new approach was introduced on 1 February 1997.

Number of customer sites

As at 1 February 1997, when the new approach was introduced, the number of sites at which Tel-Me was installed was 5,000. Since 1 February 1997 the Tel-Me sales force has targeted higher value customers with a corporate offering comprising multiple Tel-Me licences, Tel-Me training and communications hardware. Over the same period the sales force has continued to respond to enquiries for single user licences.

In the period from 1 February 1997 to 30 June 1997, new customer additions were around 300 of which around 25% were higher value multi-site installations.

During the same period 700 customers previously recruited under the mass market approach discontinued the service. As at 30 June 1997, the number of sites at which Tel-Me was installed was 4,600.

The priority for the remainder of the coming year is to increase targeted customer recruitment and usage. The measures taken to achieve this are outlined in the Chief Executive's review. In the short term, however, the number of sites at which Tel-Me is installed is expected to continue to decrease until new customer recruitment exceeds churn from the mass market customer base.

Customer usage

During the year the Tel-Me suite of products was strengthened by the addition of the Dun and Bradstreet Market Identifier product. Other new products and ways of enhancing the Tel-Me service are currently being considered for incorporation in the Tel-Me product.

Our experience to date is that usage from new Tel-Me customers is higher than that from those recruited under the mass market approach. At £9 per customer site per week this is 250% higher than the £3.50 per customer site per week for the customer base overall.

Technology and licensing agreements

PhoneLink received revenue from a number of sources associated with the Company's technology and licensing agreement during the year. The most significant amongst these was the revenue associated with the agreement signed in March 1995 with BT for the marketing of its own Tel-Me service making use of PhoneLink's Tel-Me technology. This agreement, which contributed £2.25 million over 2 years, came to an end on 30 June 1997. PhoneLink will continue to receive usage revenue from the BT Tel-Me product.

Gross profit and cost of sales

Gross profit for the year was marginally ahead of that for 1996 at £1.8 million. Expressed as a percentage of turnover, gross margin increased from 39% in 1996 to 41% in 1997. The change in gross margin was attributable to the change in sales mix and the associated change in the composition of cost of sales.

Cost of sales comprises four principle cost components: the cost of royalties on information supplied by Source Data Owners, the cost of maintaining communications networks, the cost of the provision of software and the cost of provision of hardware (where applicable) to Tel-Me customers.

Other operating expenses

Commercial infrastructure and product development costs
Commercial infrastructure and product development costs increased from £1.9 million in 1996 to £2.6 million in 1997. The increase was primarily personnel related with an increase in the number of staff involved in research and development activities associated with the PhoneLink electronic trading platform and with special projects.

Business development, selling and marketing expenses
A consequence of the decision to refocus Tel-Me towards higher value customers was a more targeted sales and marketing approach. High profile advertising campaigns aimed at generating large numbers of leads were replaced by targeted direct mail campaigns and the large generalist sales force was replaced by fewer higher quality operatives. As a result, business development, selling and marketing costs reduced from £4.8 million in 1996 to £3.6 million in 1997.

Administration expenses
Administration expenses increased to £1.4 million in 1997 from £1.1 million in 1996. This increase was primarily related to the additional personnel resource required to support, bill and collect ongoing revenues from the increased average number of Tel-Me customers during the year.

Loss from interests in associated undertakings
The loss from associated undertakings represents the net amount of PhoneLink's 50% share of the initial costs of its joint venture with the Scottish Widows' Fund and Life Assurance Society and a small profit from Jenny Pizer Marketing, PhoneLink's other associated undertaking.

Interest receivable and interest payable
Interest receivable comprises interest earned on the Company's cash balances which were invested throughout the year in time deposits with UK banks or building societies. In accordance with the Board's policy, the maximum sum invested in any one financial institution did not exceed £4 million at any one time and each institution used was rated as minimum AA during the period of investment.

The increase in net interest receivable from £176,000 in 1996 to £687,000 in 1997 was as a result of both higher average cash balances held during 1997 and of higher prevailing interest rates during 1997 compared with 1996. Interest payable during the year was negligible.

Taxation
The Company did not incur a taxation charge for the year ended 31 March 1997. As at 31 March 1997 the trading losses available to the Company to offset against future trading profits were £15,597,000.

Amount transferred from reserves
The amount transferred from reserves to cover trading losses decreased from £6.7 million in 1996 to £6.2 million in 1997.

The loss per ordinary share for the year to 1997 was 12.9p compared to 17.3p in 1996. The calculation of the loss per ordinary share in 1997 takes account of the additional 8,333,333 ordinary shares issued in respect of the Placing and Open Offer in April 1996.

Investments
In November 1996, PhoneLink entered into an agreement with Scottish Widows' Fund and Life Assurance Society to establish a joint venture company, The Electronic Market Limited. PhoneLink subscribed for 25 ordinary shares of £1 each at a cost of £750,000, representing 50% of the issued voting share capital.

The investment has been accounted for as an associate under the equity accounting method on the basis that neither PhoneLink nor Scottish Widows' Fund and Life Assurance Society has a controlling interest in the joint venture company.

On the equity accounting basis, the carrying value of investment in the consolidated balance sheet has been reduced by £116,000, being PhoneLink's share of the losses incurred by the joint venture company in the trading period ended 31 March 1997. The carrying value of the investment in the company's own books has also been written down by PhoneLink's share of the losses of The Electronic Market Limited.

Under the joint venture agreement, PhoneLink has the option to subscribe along with the Scottish Widows' Fund and Life Assurance Society for further shares in The Electronic Market Limited with a cost of up to £1.25 million each. Further subscription is, however, dependent on the agreement of both parties following a review of the joint venture's operation at which stage either party may withdraw from the joint venture and offer their shares to the other party at fair value.

Liquidity
At 31 March 1997, the Company had cash and short term deposit balances of £9.6 million compared to £2.0 million at 31 March 1996. The principle source of cash inflow during the year was from the Placing and Open Offer in April 1996 which generated £14.1 million net of expenses. The principle outflows were net investments in fixed assets of £0.8 million and the investment in The Electronic Market Limited of £0.8 million. Operating activities for the year ended 31 March 1997 absorbed £5.6 million of cash.

In accordance with revisions to FRS1 by the Accounting Standards Board, the layout of the cash flow statement has been revised when compared with the layout of the statement produced last year.

The revised layout makes a clear distinction between cash available on demand and short term deposits. At any one time the majority of PhoneLink's cash is invested in short term deposits, with terms ranging from one month to six months in order to match cash availability to requirement and to maximise investment income.
The cash flow statement shows that cash (current account balances) decreased by £1.1 million between 31 March 1996 and 31 March 1997. Short term deposits increased over the same period by £8.8 million.

R A Law
Finance Director
10 July 1997

Directors and officers

Executive directors

Graham Ramsey - Chief Executive Officer (Aged 45)
Became a director and was appointed Chief Executive Officer in January 1997. He joined PhoneLink from United News and Media Group where he was Group Managing Director of United Advertising Publications.

Richard Anthony Law - Finance Director (Aged 37)
Appointed to the Board in June 1995 having previously been Group Financial Controller. He joined PhoneLink from the Corporate Finance Department of Ernst & Young in July 1993.

Non-executive directors

Sir Gordon Charles Brunton - Chairman (Aged 75)
Became a member of the Board and was appointed Chairman in May 1993. He is also Chairman of Verity Group plc and a number of other private companies.

Trevor John Burke - (Aged 49)
Became a director in September 1989 and was appointed as a non-executive director on 16 June 1997. Trevor Burke is the Company's founder and major shareholder.

John Trevor Harrison (Aged 57)
Appointed to the Board in June 1995. He is also a non-executive director of a number of UK public companies and a director of the Chelsea Building Society.

Richard Reynolds (Aged 58)
Appointed to the Board in February 1997. Formerly Chairman of GPT, he is also a director of Prospect Industries plc and Photobition plc and is Chairman of the Eastern European Trade Council.

Board committees

Audit Committee
J T Harrison (Committee Chairman); Sir G C Brunton; R Reynolds; R A Law. This committee liaises with the Group's Auditors and reviews the Group's accounting policies, internal controls and its financial reporting.

Remuneration Committee
The Remuneration Committee comprises Sir G C Brunton (Committee Chairman); J T Harrison; R Reynolds. This committee sets the remuneration of the Group's executive directors.

Company secretary
R A Law ACA

The Directors present their report and accounts for the year ended 31 March 1997.

Principal activity

The principal activity of the Group during the period has been the development, sale and support of business and electronic commerce software, the licensing of technology and the operation of a bureau telephone numbering service.

Review of operations

The Group results are set out in the consolidated profit and loss account on page 17. The Group loss for the year transferred to reserves was £6.17 million. A review of the Group's activities and of the future development of the Group is contained in the Chairman's statement and Chief Executive's review on pages 2 to 5.

Dividends

The Directors do not recommend the payment of a final dividend.

Employees

The employment policies of the Group embody the principles of equal opportunity and the Group does not discriminate against anyone on any grounds. The Group ensures that every consideration is given to applications for employment from disabled persons. If an employee becomes disabled, every effort would be taken to offer suitable alternative employment and assistance with retraining.

The Group keeps employees informed by periodic staff briefings and internal announcements and takes full account of any comments and feedback provided by employees in the formulation of it's policies and procedures.

Emphasis is placed upon providing a safe and healthy working environment.

Placing and open offer

In April 1996 the Company issued 8,333,333 ordinary shares of 2.5p each, with an aggregate nominal value of £0.21 million for a cash consideration of £15 million.

Market value of land and buildings

The freehold land and buildings of the Group at its Prenton site, which account for substantially all of the Group's property holdings, were valued on a market valuation basis on 9 July 1996. The valuation of £0.44 million compares with a net book value shown in the financial statements of £0.82 million.

The principal reasons for the difference between the market valuation and the net book value relate to both the location of the site, which takes advantage of a high volume communications infrastructure essential to the operation of the business, and to the specialised construction of certain buildings which accommodate the Group's computer equipment.

The insurance reinstatement valuation, which accompanied the market valuation referred to above, indicated the reinstatement value of the freehold land and buildings to be £0.94 million. The Directors consider the market valuation of freehold land and buildings to be an inappropriate base for the continued use of these assets in the business and accordingly have included land and buildings at their historical cost less accumulated depreciation.

Research and development

The Group has continued to attach a high priority to research and development throughout the period. During the year ended 31 March 1997, approximately 18% of the Group's staff resources were employed in research and development activities.

Substantial shareholders

As at 10 July 1997 the following interests, within the meaning of Part VI of the Companies Act 1985, which represented 3 per cent or more of the issued share capital of the Company had been disclosed to the Company.

	No.	Percentage
Mrs H Burke*	20,731,403	42.9%
Newton Investment Management Ltd	6,660,516	13.8%
Mr I Woolsey	6,157,832	10.7%
Reggeborgh Participates B.V.	3,800,000	7.9%

*The shares held by Mrs H Burke include 18,729,033 ordinary shares held by T J Burke, a director of the Company, which are included by virtue of their status as immediate members of the same family. T J Burke's share interests are disclosed in the Remuneration Committee Report.

Mrs H Burke and Mr I Woolsey resigned as directors of the Company on 28 February 1997. The shareholding of Mrs H Burke and Mr I Woolsey were disclosed under Director's Interests in previous years.

Directors and their interests

The names and brief biographical details of Directors at the date of this report are set out on page 8.

The Directors still serving at the year ended 31 March 1997 and their interests in the share capital of the Company are set out in the Remuneration Committee report on pages 11 to 13.

H Burke, P H J Madden, I Woolsey and J Lyon resigned as directors of the Company on 28 February 1997. J Lyon left the Company on 31 March 1997 and H Burke left the Company on 16 June 1997. I Woolsey, P H J Madden continue to work within the business as members of the Group's operational management board.

Two directors were appointed to the Board of PhoneLink plc during the year ended 31 March 1997. G J Ramsey was appointed as Chief Executive Officer on 6 January 1997 and R Reynolds was appointed as a non-executive director on 6 February 1997. In accordance with the Articles of Association both retire at the Annual General Meeting and being eligible have indicated their willingness to be re-appointed.

In addition, T J Burke retires by rotation and being eligible and willing to be re-appointed, he offers himself for re-election.

At 10 July 1997, the unexpired terms in the contracts of service for G Ramsey, T J Burke and R Reynolds were 18 months, 11 months and 7 months respectively.

Renewal of authority to allot shares

An ordinary resolution will be put to the shareholders pursuant to Section 80 of the Companies Act 1985 in order to renew the Directors' authority relating to the issue and allotment of ordinary shares. The nominal value of ordinary shares pursuant to this authority in the period up to the next Annual General Meeting is proposed to be £398,318 and represents 33 per cent of the issued ordinary share capital of the Company at the date of this document. This authority becomes effective on the passing of resolution 6 set out in the notice of the Annual General Meeting on page 30 of this document and expires at the earlier of the date 15 months from the passing of this resolution and the conclusion of the next Annual General Meeting of the Company. The Directors do not have any present intention of exercising this authority other than upon the possible exercise of options under the Executive Share Option Scheme.

Dis-application of pre-emption rights

A special resolution will be put to the shareholders pursuant to Section 95 of the Companies Act 1985 to issue ordinary shares wholly for cash without first offering them to existing shareholders in proportion to their share holdings. The limit on the nominal value of ordinary shares which may be so issued by the Directors is £60,351 and represents 5 per cent of the issued ordinary share capital of the Company at the date of this document. This power becomes effective on the passing of resolution 7 set out in the notice of the Annual General Meeting on page 30 of this document and expires on the earlier of the date 15 months from the passing of the resolution and the conclusion of the next Annual General Meeting of the Company.

Policy on payment of suppliers

Payment dates are established according to the agreed date of delivery of goods or provision of services and receipt of a correct invoice. The Group agrees the length of payment terms with each of its main suppliers. Invoices from all other suppliers which are not the subject of dispute are paid on or before the end of the month following the month of invoice. The number of days purchases in trade creditors at the balance sheet date is 42.

Donations

The Group made no charitable or political donations during the year.

Auditors

A resolution proposing the re-appointment of Ernst & Young as auditors to the Company will be put to the members at the Annual General Meeting.

By Order of the Board
R A Law - *Secretary*
10 July 1997

Introduction

From 20 May 1996, the Remuneration Committee has consisted of only non-executive directors. Prior to this date T J Burke, then an executive director, was a member of the Committee. In order to comply with the recommendations of the Greenbury Report, T J Burke resigned from the Committee. The members of the Committee are Sir Gordon Brunton (Chairman), Trevor Harrison and Richard Reynolds.

The remuneration of executive directors is determined by the Remuneration Committee. It has an agreed framework of policies within which it sets the remuneration package for each executive director. The remuneration of the non-executive directors is determined by the Board.

The Company, with the exception of the period referred to above, has complied with Section A of the best practice provisions annexed to the Stock Exchange Listing Rules throughout the year and in adopting the remuneration policy summarised below the Remuneration Committee has given full consideration to the matters set out in Section B of the best practice provisions annexed to the Stock Exchange Listing Rules.

Remuneration policy

The basic objectives of the Remuneration Committee's policies are that executive directors should receive remuneration which is appropriate to their scale of responsibility and performance and which will attract, motivate and retain executives of the necessary calibre. The performance of directors is a major consideration when setting the levels of remuneration.

The remuneration packages of executive directors comprise annual salary, health and car benefits, prolonged disability insurance and pension contributions.

Salaries

In assessing the remuneration of executive directors the Company compares the levels of remuneration offered to directors of similar type and seniority in other UK companies whose activities are comparable to that of PhoneLink.

During the financial year ended 31 March 1997 the Directors (with the exception of R A Law) received no increase in salary. R A Law's salary was increased so as to adequately reward and incentivise him and to bring his pay into line with that of the other executive directors.

T J Burke was awarded a bonus of £10,000 during the year in recognition of the considerable additional work undertaken in relation to the commercial and operational direction of the business.

P H J Madden was awarded a bonus of £10,000 during the year which was agreed as part of his recruitment package. This payment brought the total of bonuses paid in accordance with his recruitment package since the commencement of his contract on 9 December 1994 to £20,000. All bonus payments agreed to at the commencement of the service contract have now been paid.

Non-executive directors' remuneration

The remuneration of non-executive directors is determined by the Board of Directors in accordance with the Company's Articles of Association. They do not participate in any of the Company's bonus, share option or other incentive schemes.

Pensions

The Company does not have a contributory pension scheme. All pension payments for Directors are paid directly into the Directors' personal pension plans.

Other benefits

All of the executive directors are provided with permanent health and private medical insurance. Any benefits arising are included in the remuneration details set out in this report.

In addition to health and medical cover executive directors are eligible for other benefits which include the provision of a fully expensed company car.

Notice periods

Each of the executive directors with the exception of G Ramsey has a contract of service which is terminable by the Company on giving 12 months notice.

In accordance with the Stock Exchange Listing Rules, the Remuneration Committee reports that the contract of service for G Ramsey is terminable by the Company on giving 24 months notice. This provision continues until 6 January 2000, thereafter, the period of notice is 12 months. The Remuneration Committee considered that a notice period of this length was necessary to attract and retain the services of Mr Ramsey.

Directors interests

Set out below are the interests of the Directors and their families in the share capital of the Company.

Ordinary shares of 2.5p	**1997**	1996
Sir G C Brunton	**115,870**	68,200
T J Burke	**20,731,403**	20,731,403
G Ramsey	**9,534***	–
R A Law	**9,534**	–
J T Harrison	**15,254**	–

Included in the beneficial interest of T J Burke are 2,002,370 (1996: 2,002,370) ordinary shares belonging to H Burke which are included by virtue of their status as immediate members of the same family.

The shareholding of Sir G C Brunton reflects the inclusion of 68,200 shares held for Lady Gillian Brunton in a nominee holding account which are included by virtue of their status as immediate members of the same family.

*In addition, G Ramsey has an interest in 125,000 ordinary shares held under an option agreement dated 5 November 1996. The agreement was made between firstly G Ramsey and secondly T J Burke, H Burke and I Woolsey which grants G Ramsey an option to purchase this number of shares from the other parties to the agreement. The option has been exercisable at any time from 6 January 1997 at an exercise price of 91p per share. As at 10 July 1997 no part of the option had been exercised.

Executive share option scheme

PhoneLink plc has operated an Executive Share Option Scheme since May 1993 under which executive directors, managers and staff of the Company are granted options, at the discretion of the board, over shares in PhoneLink plc at prevailing market prices at the date of grant.

Set out on page 13 are the interests of the Directors in the Executive Share Option Scheme operated by the Company.

An Extraordinary General Meeting was held on 4 February 1997. The meeting was held to gain shareholder approval to amend the share option scheme rules following the introduction of the Finance Act 1996. In summary, the changes better reflect the Company's status as a fully listed company and also re-instate the financial limits of the original scheme (adopted in May 1993) by including a method of granting options on an unapproved basis. Shareholder approval for the amendments was granted.

Under the scheme, options are set at the prevailing market price at the time of grant. The maximum value of Inland Revenue approved share options which may be granted to any employee is restricted to £30,000. In addition, unapproved options can be granted under the scheme, the maximum number being calculated by a formula which restricts the aggregate option price to four times salary less the value of any outstanding approved share options.

At 31 March 1997 the price of the Company's shares quoted on the London Stock Exchange was 64.5p and the highest and lowest prices during the year ended 31 March 1997 were 205p and 44p respectively. There have been no other changes to Directors' interests in the shares of the Company from the end of the financial year to 10 July 1997. Full details of the Directors' interests in the shares and options of the Company are contained in the Register of Directors' Interests which is open to inspection.

Details of remuneration

	Salary/Fees £'000	Bonus £'000	Pension payments £'000	Benefits in kind £'000	Other £'000	1997 Total £'000	1996 Total £'000
Sir G C Brunton*	25	-	-	-	10†	35	35
G Ramsey *(appointed 6.1.97)*	39	-	4	3	-	46	-
T J Burke	90	10	4	11	-	115	105
J Lyon *(resigned 28.2.97)*	82	-	5	7	101††	195	93
R A Law	71	-	5	8	-	84	55
I Woolsey *(resigned 28.2.97)*	66	-	5	9	-	80	86
H Burke *(resigned 28.2.97)*	51	-	4	3	-	58	64
P H J Madden *(resigned 28.2.97)*	71	10	4	5	-	90	93
J T Harrison*	20	-	-	-	-	20	15
R Reynolds* *(appointed 6.2.97)*	3	-	-	-	-	3	-
	518	20	31	46	111	726	546

* denotes non-executive director

† reimbursement of non-executive director's office and administration expenses

†† The amount disclosed under other for J Lyon is the amount relating to his termination payment following his resignation from the Group on 31 March 1997.

Directors' interests in Executive Share Option Scheme

	At 31.3.96	Granted during financial year	Exercised during financial year	Lapsed during financial year	At 31.3.97	Option price (P)	Date exercisable
G Ramsey	-	50,000	-	-	50,000	60.00	2000-2007
	-	200,000	-	-	200,000	57.00	2000-2007
	-	250,000	-	-	250,000		
R A Law	41,080	-	-	-	41,080	315.97	1997-2004
	55,000	-	-	-	55,000	200.00	1999-2006
	96,080	-	-	-	96,080		
P H J Madden	82,160	-	-	-	82,160	211.30	1998-2005
(resigned 28.2.97)	45,000	-	-	-	45,000	218.00	1998-2005
	127,160	-	-	-	127,160		

On behalf of the Remuneration Committee - **Sir G C Brunton** 10 July 1997

The workings of the board and its committees

At 10 July 1997 the Board comprised of two executive directors and four non-executive directors, the board is responsible to shareholders for the proper management of the Group. The non-executive directors bring an independent viewpoint to the Company's activities and provide an overall balance to the board.

There is an Audit Committee which comprises of the non-executive directors and the Finance Director and is chaired by J T Harrison. The Audit Committee is responsible for reviewing a wide range of financial matters including the annual and half-year results, statements and accompanying reports before their submission to the Board, and monitoring the controls which are in force to ensure the integrity of the financial information reported to the shareholders. The Audit Committee also advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit services.

The Remuneration Committee has the responsibility for determining the remuneration, contract terms and other benefits for executive directors.

The details of the current membership of each Committee appears on page 8.

Statement of the directors on compliance with the Code of Best Practice

In December 1992 the Committee on the Financial Aspects of Corporate Governance (the 'Cadbury Committee') published a 'Code of Best Practice' regarding Corporate Governance. As part of The Listing Rules for companies listed on the London Stock Exchange directors are required to report whether they are complying with the Code of Best Practice and, where they are not complying, to give details of, and reasons for, the non-compliance and to state for which part of the period the non-compliance occurred.

The Directors consider that, with the exception of the following matter, they have complied with the Code of Best Practice.

The Code recommends that an Audit Committee consists of at least three non-executive directors. At the start of the year, the Company and the Audit Committee had two non-executive directors. On 6 February 1997 R Reynolds was appointed a non-executive director and a member of the Audit Committee.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company will continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal financial control

The Board has overall responsibility for the Group's system of internal control. This system is designed to provide reasonable but not absolute assurance against material mis-statement or loss. The full Board meets regularly and has adopted a schedule of matters which require a decision of the Board, to ensure that full and effective control is maintained.

The Group has an organisational structure with clearly defined lines of responsibility and delegation of authority. There are also established procedures and reporting systems for monitoring the performance of the Group's businesses. The Audit Committee reviews the effectiveness of the system of internal financial control of the Group and receives reports from the executive management and external auditors on a regular basis.

The Directors have delegated to executive management the detailed implementation of the system of internal financial control throughout the Group. This includes financial controls which assist the Board in meeting its responsibilities for the integrity and accuracy of the Group's accounting records. The Group Report and Accounts, prepared from these records, complies with generally accepted accounting principles.

In co-ordination with the executive managers the external auditors review and test the system of internal financial control and the data contained in the Report and Accounts to the extent necessary for expressing their opinion on the Group Report and Accounts.

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 16, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the accounts.

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that the accounts comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the accounts 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 PhoneLink plc

Accounts for the year ended 31 March 1997
We have audited the accounts on pages 17 to 29, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 21. We have also examined the amounts disclosed relating to the emoluments and the share options of Directors which form part of the report to shareholders by the Remuneration Committee on pages 11 to 13.

Respective responsibilities of directors and auditors
As described on page 15 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit on those accounts and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board.

An audit includes examination on a test basis of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and, of whether the accounting policies are appropriate to the Group'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 accounts 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 1997 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Chartered Accountants
Registered Auditor
Manchester
10 July 1997

Ernst & Young

To PhoneLink plc on corporate governance matters

Corporate governance matters
In addition to our audit of the accounts we have reviewed the directors' statements on page 14 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board and assessed whether the Directors' statements on going concern and internal financial control are consistent with the information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion
With respect to the Directors' statements on internal financial control and going concern on page 14 in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 14 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43 (j).

Ernst & Young
Chartered Accountants
Manchester
10 July 1997

Consolidated profit and loss account

Year ended 31 March 1997

	Note	1997 £'000	1996 £'000
Turnover: continuing operations	2	4,316	4,356
Cost of sales		(2,544)	(2,653)
Gross profit		1,772	1,703
Other operating expenses	3(b)	(8,517)	(8,587)
Loss from interests in associated undertakings		(115)	(3)
Operating loss: continuing operations	2,3	(6,860)	(6,887)
Interest receivable less payable	6	687	176
Loss on ordinary activities before taxation		(6,173)	(6,711)
Taxation	7	-	-
Loss on ordinary activities after taxation		(6,173)	(6,711)
Dividend		-	-
Amount transferred from reserves	17	(6,173)	(6,711)
Loss per 2.5p ordinary share	8	(12.9)p	(17.3)p

Group statement of total recognised gains and losses

Year ended 31 March 1997

There were no other recognised gains or losses in the year ended 31 March 1997 apart from those shown in the profit and loss account for the year.

Consolidated balance sheet

As at 31 March 1997

	Note	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	9	2,649	2,745
Investments	10	640	5
		3,289	2,750
Current assets			
Stocks	11	15	363
Debtors	12	1,784	2,295
Cash and short term deposits		9,628	1,972
		11,427	4,630
Current liabilities			
Creditors: amounts due within one year	13	(1,297)	(1,903)
Net current assets		10,130	2,727
Total assets less current liabilities		13,419	5,477
Creditors: amounts due after more than one year	14	-	(1)
		13,419	5,476
Capital and reserves			
Called up share capital	15	1,207	999
Share premium	17	30,544	16,636
Profit and loss account	17	(18,332)	(12,159)
Shareholders' funds attributable to equity interests		13,419	5,476

Approved by the Board on 10 July 1997.

G Ramsey - Director
R A Law - Director

Company balance sheet

As at 31 March 1997

	Note	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	9	2,649	2,745
Investments	10	661	27
		3,310	2,772
Current assets			
Stocks	11	15	363
Debtors	12	1,784	2,295
Cash and short term deposits		9,628	1,972
		11,427	4,630
Current liabilities			
Creditors: amounts due within one year	13	(1,297)	(1,903)
Net current assets		10,130	2,727
Total assets less current liabilities		13,440	5,499
Creditors: amounts due after more than one year	14	-	(1)
		13,440	5,498
Capital and reserves			
Called up share capital	15	1,207	999
Share premium	17	30,544	16,636
Profit and loss account	17	(18,311)	(12,137)
Shareholders' funds attributable to equity interests		13,440	5,498

Approved by the Board on 10 July 1997.

G Ramsey - Director
R A Law - Director

Consolidated cashflow statement

Year ended 31 March 1997

	Note	1997 £'000	1997 £'000	1996 £'000	1996 £'000
Net cash outflow from operating activities	19(a)		(5,568)		(7,419)
Returns on investments and servicing of finance					
Interest received		689		178	
Interest element of finance lease rental repayments		(2)		(2)	
			687		176
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(945)		(652)	
Receipts from the sale of tangible fixed assets		119		28	
			(826)		(624)
Acquisitions and disposals					
Investment in associated undertaking			(750)		-
Cash outflow before use of liquid resources and financing			(6,457)		(7,867)
Management of liquid resources					
Cash (invested)/withdrawn from short term deposits			(8,790)		1,740
Financing					
Proceeds from issue of ordinary shares		15,000		7,583	
Share issue costs		(884)		(578)	
Repayment of capital element of finance lease rentals		(3)		(49)	
			14,113		6,956
(Decrease)/increase in cash	19(b)		(1,134)		829

1. Accounting policies

Accounting convention
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985.

Basis of consolidation
The Group accounts consolidate the accounts of PhoneLink plc and its subsidiary undertakings all of which are drawn up to 31 March each year. No profit and loss account is presented for PhoneLink plc as permitted by Section 230 of the Companies Act 1985.

Undertakings, other than subsidiary undertakings in which the Group has an investment representing not less than 20% of the voting rights and over which it exerts significant influence are treated as associated undertakings. The Group accounts include the appropriate share of those undertakings' results and reserves to 31 March 1997.

Turnover
Group turnover represents the sale of software licences and associated hardware, the sale of technology licences and royalty income, revenue arising from the use of the licensed software by customers and revenue from the provision of the bureau telephone numbering service. All sales were made to customers outside the Group and are stated exclusive of value added tax.

Recognition of licensing income
Revenue is recognised in the period of the sale of software licences for established products where the costs of fulfilling vendor obligations under the licence agreements have been shown historically to be insignificant and are estimated to continue to be insignificant.

Revenue associated with the sale of software licences for other products where the cost of fulfilling vendor obligations under the licence agreement are significant, or are yet to be determined with accuracy, is credited to the profit and loss account over the period to which the licence relates.

The cost of fulfilling vendor obligations under the licence agreements are expensed as incurred.

Revenue associated with specific technology agreements is recognised in accordance with the provision of the relevant agreement.

Taxation
The taxation charge/credit is based on the profit/loss of the year and includes any deferred taxation provided on the liability method for those timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Goodwill
Goodwill arising on acquisition is written off immediately against reserves.

Research and development
Research and development costs are written off in the period in which they are incurred.

Leasing and hire purchase agreements
Assets held under finance leases and hire purchase agreements are included as tangible assets at their purchase price and depreciated over the asset's life. The obligations are included as appropriate, under creditors due within or after one year. The interest element of the rental obligations is charged to the profit and loss over the period of the lease and represents a constant proportion of capital repayments outstanding. Rentals under operating leases are charged to profit and loss on a straight line basis.

Depreciation
Depreciation is not provided on freehold land. Depreciation is provided on all other tangible assets at rates calculated to write off the cost less residual value, of each asset evenly over it's expected useful life as follows:

Freehold buildings	- 2-10% straight line (dependent upon the structure and composition of the building)
Short leasehold	- lease term
Motor vehicles	- 25% straight line
Computer equipment	- 25% straight line
Office fixtures, fittings, plant and machinery	- 10-25% straight line

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

2. Segmental information

Turnover and operating loss arise from the provision of goods and services to customers in the United Kingdom by the Group's bureau, software and business information services in the United Kingdom. All the capital employed by the Group is used to this end.

3. Operating loss

(a) Operating loss has been arrived after charging:

	1997 £'000	1996 £'000
Depreciation of owned fixed assets	907	733
Depreciation of assets held under finance leases and hire purchase agreements	-	40
Operating lease rentals	183	126
Research and development expenditure	2,606	1,916

(b) Operating expenses can be analysed as follows:

	1997 £'000	1996 £'000
Commercial, infrastructure and product development	2,606	1,916
Business development, selling and marketing expenses	3,598	4,785
Administrative expenses	1,406	1,113
Depreciation of fixed assets	907	773
	8,517	8,587

(c) Auditors' remuneration was as follows:

	1997 £'000	1996 £'000
Audit services	18	17
Non audit services	56	92

4. Directors' emoluments

The emoluments of the directors of the Company for the year were as follows:

	1997 £'000	1996 £'000
Fees	48	40
Reimbursement of non-executive directors' office and administration costs	10	10
Salaries and taxable benefits	516	469
Pension contributions	31	22
Bonuses	20	5
Termination Payment	101	-
	726	546

Details of the emoluments of directors are given in the Report to the Shareholders by the Remuneration Committee on pages 11 to 13.

5. Employees

The number of employees at 31 March 1997 was 136 (31 March 1996: 185)

The average number of employees during the year within each category was as follows:

	1997 No.	1996 No.
Research and development	34	35
Production	17	13
Selling and administration	136	114
	187	162

The costs incurred in respect of these employees were:	1997 £'000	1996 £'000
Wages and salaries	4,256	3,452
Social security costs	437	341
Other pension costs	80	56
	4,773	3,849

6. Interest receivable less payable

	1997 £'000	1996 £'000
Bank interest receivable	689	175
Other interest receivable	-	3
	689	178
Finance charges under finance leases and hire purchase agreements	(2)	(2)
Net interest receivable	687	176

7. Taxation

There is no tax charge/credit for the year.
At 31 March 1997 there were trading losses of £15,597,000 (1996: £10,428,000) for offset against future trading profits.
At 31 March 1997 there was no potential liability to deferred tax (1996: £NIL).

8. Earnings per ordinary share

Earnings per share have been calculated in accordance with Financial Reporting Standard No. 3 by reference to a loss of £6,173,000 (1996: £6,711,000) and the average number of shares in issue of 47,915,636 (1996: 38,815,193).

9. Tangible fixed assets
Group and Company

	Freehold land and buildings £'000	Short leasehold buildings £'000	Motor vehicles £'000	Computer equipment £'000	Office fixtures, fittings, plant and machinery £'000	Total £'000
Cost						
At 1 April 1996	863	11	104	2,723	609	4,310
Additions	58	-	69	740	78	945
Disposals	-	-	(92)	(135)	(57)	(284)
At 31 March 1997	921	11	81	3,328	630	4,971
Depreciation						
At 1 April 1996	69	5	73	1,238	180	1,565
Provided during the year	32	3	26	723	123	907
Disposals	-	-	(57)	(44)	(49)	(150)
At 31 March 1997	101	8	42	1,917	254	2,322
Net book value						
At 31 March 1997	820	3	39	1,411	376	2,649
At 1 April 1996	794	6	31	1,485	429	2,745

Freehold land and buildings includes £75,000 in respect of land.

The net book value in respect of assets held under finance leases and hire purchase agreements are as follows:-

	1997 £'000	1996 £'000
Office fixtures, fittings, plant and machinery	-	8

10. Investments
Group

Associated undertakings	Share of net tangible assets £'000
At 1 April 1996	5
Additions	750
Share of loss retained in the year	(115)
At 31 March 1997	640

In November 1996 PhoneLink plc acquired 50% of the share capital of The Electronic Market Limited for a cash consideration of £750,000.

Company
Associated undertakings

	£'000
Cost	
At 1 April 1996	27
Additions	750
Cost at 31 March 1997	777
Amounts written off	
At 1 April 1996	-
Provided in the year	116
At 31 March 1997	116
Net book value	
At 31 March 1997	661
At 1 April 1996	27

Details of the investments in which the group or the company holds more than 20% of the nominal value of any class of share capital are as follows:

Name of company	Description of holding	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings			
PhoneLink Data Limited	Ordinary shares	100%	Dormant
Tel-Me Innovation Limited	Ordinary shares	100%	Dormant
Associated undertaking			
Jenny Pizer Marketing Limited	Ordinary shares	27½%	Marketing
The Electronic Market Limited	Ordinary shares	50%	Electronic Information

All companies are incorporated in the United Kingdom and operate in the United Kingdom.

11. Stocks

Group and Company	1997 £'000	1996 £'000
Goods for re-sale	2	363
Consumables	13	-
	15	363

12. Debtors
Group and Company

	1997 £'000	1996 £'000
Trade debtors	1,088	1,194
Due from associated undertakings - loan	-	10
Due from associated undertakings - trading	114	5
Sundry debtors and prepayments	201	192
Technology agreement debtors	381	894
	1,784	2,295

All the above amounts are due within one year.

13. Creditors - amounts due within one year
Group and Company

	1997 £'000	1996 £'000
Obligations under finance leases and hire purchase agreements	1	3
Trade creditors	680	1,158
Other taxes and social security costs	239	123
Accruals and deferred income	377	619
	1,297	1,903

Included in accruals and deferred income are advanced licence receipts of £31,852 (1996: £12,609)

14. Creditors - amounts due after more than one year
Group and Company

	1997 £'000	1996 £'000
Obligations under finance leases and hire purchase agreements	-	1

15. Share capital

	1997 £'000	1996 £'000
Ordinary shares of 2.5p each		
Authorised	1,625	1,250
Allotted, called up and fully paid	1,207	999

During the year the authorised share capital was increased to £1,625,000 by the creation of 15,000,000 ordinary shares of 2.5p each.

During the year 8,333,333 ordinary shares of 2.5p each, with an aggregate nominal value of £208,333, were issued fully paid for cash of £15,000,000.

16. Share options

During the year ended 31 March 1997 the Company granted options over 250,000 (1996:159,500) shares in the Company. The grant of options during this period was made to G Ramsey, the Chief Executive.

Number of shares at 31.03.97	Proportion of issued share capital	Exercise price	Date exercisable
122,470	0.25%	150.93p	1996 to 2003
206,686	0.43%	315.97p	1997 to 2004
41,080	0.09%	303.80p	1997 to 2004
123,240	0.26%	211.30p	1998 to 2005
45,000	0.09%	218.00p	1998 to 2005
95,500	0.20%	200.00p	1999 to 2006
50,000	0.10%	60.00p	2000 to 2007
200,000	0.41%	57.00p	2000 to 2007
883,976	1.83%		

17. Reserves
Group

	Share premium £'000	Profit and loss account £'000
At 1 April 1996	16,636	(12,159)
Arising on issue of shares	14,792	-
Share issue costs	(884)	-
Retained loss for the year	-	(6,173)
At 31 March 1997	30,544	(18,332)

Company

	Share premium £'000	Profit and loss account £'000
At 1 April 1996	16,636	(12,137)
Arising on issue of shares	14,792	-
Share issue costs	(884)	-
Retained loss for the year	-	(6,174)
At 31 March 1997	30,544	(18,311)

18. Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Total recognised loss	**(6,173)**	(6,711)
New shares issued	**14,116**	7,005
Total movements during the year	**7,943**	294
Shareholders' funds attributable to equity interests at 1 April	**5,476**	5,182
Shareholders' funds attributable to equity interests at 31 March	**13,419**	5,476

19. Notes to the cashflow statement

a) Reconciliation of operating loss to operating cashflows

	1997 £'000	1996 £'000
Operating loss	**(6,860)**	(6,887)
Depreciation of fixed assets	**907**	773
Share of loss of associated undertakings	**115**	3
Loss on disposal of tangible fixed assets	**4**	6
Decrease/(increase) in stocks	**348**	(273)
Decrease/(increase) in debtors	**522**	(1,502)
(Decrease)/increase in creditors	**(604)**	461
	(5,568)	(7,419)

b) Reconciliation of net cashflow to movement in net funds

	1997 £'000	1996 £'000
At the beginning of year	**1,968**	2,830
Decrease in debt	**3**	49
Increase/(decrease) in cash	**(1,134)**	829
Movement in short term deposits with banks	**8,790**	(1,740)
At the end of year	**9,627**	1,968

c) Analysis of net funds

	At 1 April 1996	Cashflow	At 31 March 1997
Cash	1,235	(1,134)	101
Short term deposits	737	8,790	9,527
Sub Total	1,972	7,656	9,628
Finance leases	(4)	3	(1)
	1,968	7,659	9,627

20. Capital commitments
Group and Company

(a) Future capital expenditure
At 31 March 1997 the value of contracts entered into but not performed amounted to £718 (1996: £4,810).

(b) Operating leases
Annual commitments under non-cancellable operating leases are as follows:

	1997 £'000	1996 £'000
Operating leases which expire within one year		
Land and buildings	6	-
Other	34	13
	40	13
Operating leases which expire within two to five years		
Land and buildings	24	19
Other	103	127
	127	146
	167	159

21. Related party transactions

The following information is provided in accordance with Financial Reporting Standard No. 8 as being material transactions with a related party during the year ended 31 March 1997.

Amounts recharged to The Electronic Market Limited in respect of personnel costs and capital expenditure amounted to £45,000 and £107,000 respectively. The amount owed by The Electronic Market Limited at 31 March 1997 was £109,000.

Notice is hereby given that the Annual General Meeting of the above named Company will be held at The Howard Hotel, Temple Place, Strand, London WC2R 2PR on 14 August 1997 at 12 noon for the following purposes:

As ordinary business:
1. To adopt the Report of the Directors, the Report of the Auditors and the audited accounts of the Company for the year ended 31 March 1997.
2. To elect Mr Graham Ramsey as a Director of the Company.
3. To re-elect Mr Trevor Burke as a non-executive Director of the Company.
4. To elect Mr Richard Reynolds as a non-executive Director of the Company.
5. To re-appoint Ernst & Young as auditors and to authorise the directors to fix their remuneration.

As special business:
To consider, and if thought fit, pass the following Resolutions of which Resolution No. 6 will be proposed as an Ordinary Resolution and Resolution No. 7 shall be proposed as a Special Resolution:

Ordinary resolution
6. That:
(a) in accordance with Article 5.1 of the Company's Articles of Association, the directors be authorised to allot relevant securities up to an aggregate nominal amount of £398,318;
(b) this authority shall expire on the earlier of the date 15 months from the passing of this resolution or the conclusion of the next Annual General Meeting of the Company after the passing of this resolution; and
(c) all previous authorities under Section 80 of the Companies Act 1985 be revoked.

Special resolution
7. That, subject to passing of Resolution No. 6 above:
(a) in accordance with Article 5.2 of the Company's Articles of Association, the directors be given power to allot equity securities wholly for cash;
(b) for the purposes of paragraph (b) of that Article, the aggregate nominal amount to which this power is limited is £60,351; and
(c) this power shall expire on the earlier of the date 15 months from the passing of this resolution or the conclusion of the next Annual General Meeting of the Company after the passing of this resolution.

By Order of the Board,
R A Law
Secretary

Dated 10 July 1997

Registered Office:
620 Woodchurch Road,
Prenton
Birkenhead L43 0TT
(Registered in England, Number 2415211)

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
2. To be effective a proxy card must be deposited with the Registrar to the Company not less than 48 hours before the time fixed for the Meeting.

Form of Proxy for Annual General Meeting, 1997
I/We (Block letters)

____

of____

member/members of PhoneLink plc hereby appoint the Chairman of the Meeting, or (block letters)

____

of____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 14 August 1997, and at every adjournment thereof. The proxy is directed to vote on the Resolution set out in the notice convening the Annual General Meeting as follows:

Resolutions	For	Against
1. Adoption of Directors' Report and Accounts		
2. Election of Mr Graham Ramsey as a Director		
3. Re-election of Mr Trevor Burke as a non-executive Director		
4. Election of Mr Richard Reynolds as a non-executive Director		
5. Re-appointment of Ernst & Young as auditors and to authorise the Directors to fix their remuneration		
6. Ordinary Resolution set out as Resolution No. 6		
7. Special Resolution set out as Resolution No. 7		

Please indicate with an 'X' in the box provided how you wish your proxy to vote. If no indication is made, the proxy will vote, or abstain from voting as he/she thinks fit.

Dated this____________________day of____________________1997

Signature ____

Notes and Instructions:

1. All members are entitled to attend and vote at the Annual General Meeting and they may appoint one or more proxies to attend and, on a poll, to vote on their behalf.
2. Where the form of proxy is executed by a corporation it must be under its common seal or otherwise executed by such corporation in the form of a deed or under the hand of an officer or attorney duly authorised in writing, which must be lodged together with the proxy form.
3. If any proxy is desired other than the Chairman of the Meeting, strike out the words "the Chairman of the Meeting, or" initial the alteration, and insert the name(s) and address(es) of the person(s) preferred in the space provided. A proxy need not be a member of the Company.
4. In the case of holdings held in joint names, the signature of one holder will be sufficient.
5. Any alteration to this form should be initialled.
6. To be valid, the form of proxy must be deposited, properly completed with the Registrar to the Company, Lloyds Bank Registrars, The Causeway, Worthing, West Sussex, BN99 6DA not later than 48 hours before the time appointed for the holding of the meeting, or any adjourned meeting, together with any other documentation required.
7. To have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person may cast), a person must have their name entered on the Register of Members by no later than 6.00 p.m. on Tuesday 12th August 1997. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
8. In the case of joint holders, the vote of the senior who tenders a vote, either in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the Register of Members in respect of the joint holding.
9. The appointment of a proxy will not preclude any member from attending the meeting, or any adjournment thereof, and voting in person.
10. This proxy confers authority to demand or join in demanding a poll.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. BR 3006

2

FIRST FOLD

Lloyds Bank Registrars
The Causeway
Worthing
West Sussex
BN99 6DB

THIRD FOLD AND TUCK IN