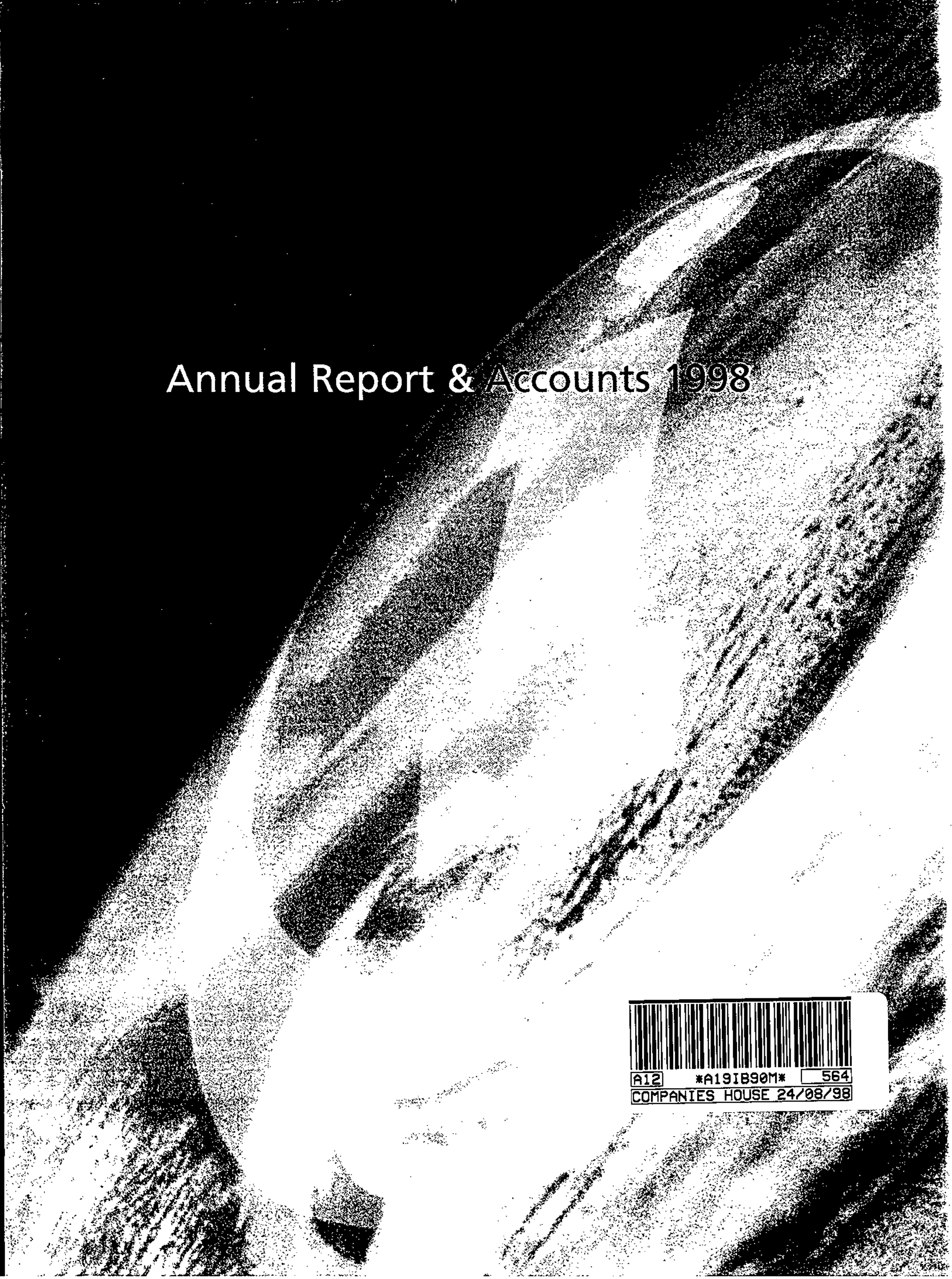
PhoneLink plc



Annual Report & Accounts 1998

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In my report at the interim stage in December of last year, I indicated that an exercise to identify suitable acquisition targets was being undertaken. This exercise, which continued throughout the second half of the year, has been focused towards identifying businesses which compliment PhoneLink's existing businesses and technological skills.

I am pleased to announce today that the Company is to seek your approval for the simultaneous acquisition of two businesses which compliment PhoneLink's existing activities.

These businesses, both of which are profitable, operate in growing sectors and provide PhoneLink with the opportunity to apply its technology and infrastructure in established markets to promote further expansion and growth. Further details of these companies and the Board's strategy are set out in the listing particulars to shareholders and the Chief Executive's review which follows this statement.

The proposed acquisitions come at the end of a year which has seen a significant transformation of PhoneLink's activities aimed at creating a solid platform for moving forward.

Losses in the business have been significantly reduced despite the scheduled ending of the BT Tel-Me licence agreement in June of last year, which prior to its cessation, had contributed annual revenues of around £1 million at no cost. This was achieved through the reduction of non-essential costs which saw overheads reduce during the full financial year by around £2.9 million or 34%. If full year benefit is taken for the savings made part way through the year and costs of rationalisation are excluded from the 1998 overheads, the saving increases to around £4 million and 47%.

The Company's existing DataCare and Tel-Me operations performed less well than expected with turnover down on last year although gross profit performance was improved as a result of efficiencies. The Company remains committed to developing new products where a clear market exists and a number of important developments are continuing.

Average cash consumption to fund trading losses again reduced from the £160,000 per month reported in December to £140,000 per month in the current quarter. This compares with £402,000 per month of a little over a year ago.

The balance sheet remains strong with cash balances at 31 March 1998 of £8.1 million, compared with £9.6 million at 31 March 1997 with no debt.

PhoneLink has gone through a significant period of change which will continue with the acquisitions proposed today. This will significantly reduce the time scales to achieving overall profitability. On behalf of the board I would like to thank you for your continuing support.

Sir Gordon Brunton
Chairman

18 June 1998

Introduction

Action has been taken over the past year which will transform the future potential of PhoneLink. The existing businesses and costs have been brought under control and our initiatives to identify suitable acquisitions have proven successful with a proposal sent to shareholders today for the simultaneous acquisition of two companies, which have synergy with PhoneLink's existing business and strategy.

Proposed Acquisitions

Synergy with DataCare

DataCare is the market leader in the provision of business telephone numbering services. It is an area of PhoneLink's business with the most established customer base and revenue stream and has consistently maintained a prominent market position. DataCare's market sector has been targeted for growth by acquisition. An extensive review of a significant number of companies in the broader market was undertaken under strict criteria. This process provided a shortlist of companies where amalgamation with PhoneLink, and more significantly its DataCare division, made business sense. The benefit of this liaison was shared by the independent owners of GB Mailing Systems Limited ('GB') and it is proposed that this company is acquired. GB are located in Chester and operate in a similar arena to DataCare having developed exciting products to exploit the market for postcode and address information. Providing sophisticated addressing software for direct marketing purposes is at the core of the Company's activity and it is this which has allowed the Company to grow rapidly. In the year to 31 March 1998, GB had a turnover of £6.9 million and profits before interest and tax of £1 million. GB also provides bureau services relating to postcode and lifestyle information.

The portfolio of products that GB make available to its clients and those of PhoneLink, especially in the DataCare division, are complimentary. The bringing together of the companies will provide exciting opportunities for growth from shared customer relationships and sales and marketing opportunities, plus the expanded product range.

Synergy with On-Line Business Information and Electronic Trading

It was decided, in line with strategy to identify potential acquisition targets which operate in an industry conducive to the widespread application of electronic trading and which already have established electronic trading flows. This process has resulted in the proposed acquisition of a company which operates in the business travel arena. This company exploits an award winning, on-line product called Ticket Window. The strategic fit of this company with PhoneLink is particularly exciting because of its initiatives in implementing and developing electronic trading technology to increase market share and improve margins. The expertise and facility that PhoneLink has, coupled with the opportunity to batch its own products with Ticket Window, will enhance the current performance of both businesses and creates a strong platform for future growth. Another significant advantage is the established industry relationships and the market share this company commands. The latest audited accounts show that for the eight month period ended on 31 December 1997, Seaforths had turnover and profit before interest and tax of £26.2 million and £0.5 million respectively. PhoneLink's shareholder, Reggeborgh BV ('Reggeborgh'), has a 37% interest in Seaforths and this, therefore, represents a strengthening of our strategic relationship.

Summary

A major advantage of each acquisition is the integration of their management teams who have steered the companies to deliver impressive growth in recent years.

I believe both companies provide a good strategic fit with PhoneLink in terms of business focus and the application of technology. The new expanded group will go forward with a unique combination of product offerings with exceptional utility enabling the Company to offer a wide range of business solutions. With the addition of the established market position of the companies proposed for acquisition, the investment that PhoneLink has made in developing products and facilities will be utilised much more effectively. I believe that growth prospects for the future are very exciting.

Trading Review

PhoneLink's existing businesses performed less well than expected with overall turnover reducing by £1.1 million. The principle reason for this was the planned cessation of the BT Tel-Me contract in June 1997. Despite the cessation of the BT contract which previously had contributed annual revenues of around £1 million at no cost, gross margin performance increased from 41% to 43%. In order to achieve this, some lower margin business in the DataCare and Tel-Me arenas was forgone and the turnover from the existing DataCare and Tel-Me operations saw some marginal reduction when compared with the previous year.

In spite of the reduction in turnover, both losses and cash consumption further reduced as a result of the continuing tight control of costs. Cash at 31 March 1998 was £8.1 million compared with £9.6 million a year earlier. Development of new products continued during the year and PhoneLink's electronic trading platform is now being sold commercially following its successful trial with Logitec outlined in my Statement of December last year. Initial reaction from the market is encouraging but it is currently too early to gauge how this reaction will convert into revenues.

Prospects

Much has been achieved in the past year towards taking PhoneLink forward. The proposed acquisitions now before shareholders represent the most expeditious route to further advance this process while creating further significant growth opportunities for the future. I view the proposals before shareholders as very positive and look forward to your continuing support in achieving the objective of creating real shareholder value.

G Ramsey
Chief Executive

18 June 1998

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

Overview

Group turnover for the year was £3.2 million. This represents a reduction of £1.1 million compared with the previous year due primarily to the scheduled cessation of the licensing agreement with BT in June 1997. Turnover from PhoneLink's DataCare and Tel-Me businesses was also marginally lower in the face of increasing competition and the need to maintain margins.

Despite the loss of the BT licensing revenue which carried no cost of sale and increased competition generally, the gross margin on turnover improved by 2% from 41% in the year to 31 March 1997 to 43% in the year to 31 March 1998. This improvement was as a result of the increased efficiency of operations and forgoing lower margin business.

Operating costs reduced by £2.9 million compared with the previous year, a reduction of 34%. The cost reduction and rationalisation programme commenced in January 1997 and continued throughout the financial year resulting in significant reductions in operating expenditure. On an annualised basis, taking full year benefit for the savings achieved part way through the year and excluding rationalisation costs, the year on year savings increase to £4 million or 47% of the 1997 costs.

The operating loss of £4.4 million was £2.5 million lower than that of the previous year. Retained losses for the year were £3.7 million. This compares with a loss in the year to 31 March 1997 of £6.2 million.

Cash balances at 31 March 1998 were £8.1 million compared to £9.6 million at 31 March 1997. The Company has no debt.

Turnover

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

DataCare

DataCare revenues were lower by £294,000 than in the previous year. Although revenue declined, the volume of records processed increased by 23% and DataCare continues to maintain its position as the leading supplier of telephone numbers to the direct marketing, debt recovery and utility industries. A number of important initiatives were introduced during the year and are continuing in the current year aimed at re-establishing growth while maintaining margins.

Tel-Me

The change in sales focus which operated during the year towards a lower number of higher value customers resulted in much reduced operating costs and improved margins. The number of customer sites, however, reduced but the average usage per customer, per site increased significantly. The net effect was a reduction in turnover associated with Tel-Me of £121,000 compared with the previous year.

Technology and licensing agreements

Revenue from technology and licensing agreements of £219,000 received during the year was associated with the contract signed with BT in March 1995 for £2.25 million payable over 2 years from June 1995. This contract came to an end in June 1997 in accordance with the terms of the contract.

Gross profit and cost of sales

Gross profit for the year reduced by £0.3 million to £1.4 million compared to the previous year. Expressed as a percentage of turnover, however, gross margin increased from 41% to 43%. The change in gross margin is as a result of increased efficiency of processing operations for DataCare and Tel-Me. In the absence of the cessation of the BT contract in June 1997, which contributed licence revenues at no cost of sale, the improvement in margin would have been much more marked.

Other operating expenses

Commercial infrastructure and product development costs

Commercial infrastructure and product development costs decreased from £2.6 million in the year to 31 March 1997 to £1.7 million in the year to 31 March 1998. The decrease in costs was primarily personnel related. Costs reduced significantly as a result of the rationalisation programmes which took place in February and November 1997.

Business development, selling and marketing expenses

Costs in this area reduced from £3.6 million to £2.1 million in 1998. The expenditure on marketing and advertising reduced significantly primarily as a result of the change in sales focus and as a result of rationalisation of the business development and selling operations. The customer targets are now more specific and marketing is mainly by more cost effective direct methods utilising mail-shot with telesales follow up. Lower costs of marketing and advertising were offset by higher costs associated with progressing the strategic objective of making acquisitions. These costs were £135,000 during the year.

Administration expenses

Administration expenses reduced by £0.4 million to £1 million in 1998. Administration expenses include insurances, premises, legal, professional and personnel costs. The reduction in costs has been primarily in the area of personnel related costs.

Loss from interests in associated undertakings

The loss from interests in associated undertakings represents PhoneLink's 50% share of the loss of its joint venture with the Scottish Widows' Fund and Life Assurance Society, The Electronic Market Limited. The joint venture with Scottish Widows' came to an end in August 1997.

Interest
Interest is earned on cash balances which are invested in accordance with the Board's treasury policy. The maximum sum invested in any one financial institution is £4 million and each institution must have a minimum AA rating during the period for which the funds are invested. Net interest receivable decreased by £64,000 compared to last year. This is as a result of lower average cash balances offset by higher prevailing interest rates.

Taxation
The Company did not incur a taxation charge for the year ended 31 March 1998. As at 31 March 1998, the trading losses available to offset against future trading profits were £18.2 million.

Amounts transferred from reserves
The amount transferred from reserves to cover trading losses decreased from £6.2 million in 1997 to £3.7 million in 1998.

The loss per ordinary share for the year to 1998 was 7.8p compared to 12.9p in 1997. The calculation of the loss per ordinary share in 1998 is based on 48,280,933 ordinary shares, being the number in issue during the period.

Investments
PhoneLink entered into an agreement with Scottish Widows' Fund and Life Assurance Society to establish a joint venture company in November 1996, The Electronic Market Limited. PhoneLink owned 50% of the issued voting share capital. The joint venture came to an end on 14 August 1997 when PhoneLink sold its interests in The Electronic Market Limited to Scottish Widows' Fund & Life Assurance Society. The net cost to PhoneLink of the joint venture was £187,000.

Liquidity
At 31 March 1998, the Company had cash and short term deposit balances of £8.1 million compared to £9.6 million at 31 March 1997. The principle sources of non-trading cash inflow during the year were interest received of £0.6 million and the return of investment funds from The Electronic Market Limited of £0.5 million. The principle outflow was the investment in fixed assets of £0.2 million. Operating activities absorbed £2.5 million of cash in the year ended 31 March 1998.

Year 2000 compliance
As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A company-wide programme, designed to address the impact of the Year 2000 on our business, has been commissioned by the Board and is under way. A Year 2000 Taskforce comprising senior executives of the Company has been established. Appropriate resources have been allocated and the Board receives regular reports on progress.

A risk analysis has been performed to determine the impact of the issue on all our activities. From this, prioritised action plans are being developed which will address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority will be given to those systems which could cause a significant financial or legal impact on the Company's business if they were to fail. The plan will also include a requirement for the testing of systems changes, involving the participation of users.

The risk analysis also considers the impact on our business of Year 2000 related failures by our significant suppliers (including computer bureaux) and customers. In appropriate cases we have initiated formal communication with these other parties.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will remain, because at least some level of failure may still occur. However, the Board believes that it will achieve an acceptable state of readiness and has also provided resources to deal promptly with significant issues that might arise.

PhoneLink believes that much of the cost of implementing the action plans will be subsumed into the recurring activities of the departments involved. It is difficult to assess the likely cost of the whole process, however, we do not believe that it is likely to have a significant affect on the results of the business.

R A Law
Finance Director

18 June 1998

Executive directors

Graham Ramsey – Chief Executive Officer (Aged 46)
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 38)
Appointed to the Board in June 1995 having previously been Group Financial Controller.

Non-executive directors

Sir Gordon Charles Brunton – Chairman (Aged 76)
Became a member of the Board and was appointed Chairman in May 1993. He is also Chairman of a number of other private companies.

Richard Reynolds (Aged 59)
Appointed to the Board in February 1997. Formerly Chairman of GPT, he is also a director of The National Grid Group plc and Photobition plc and is Chairman of the Eastern European Trade Council.

John Trevor Harrison (Aged 58)
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.

Trevor John Burke (Aged 50)
Became a director in September 1989 and was appointed as a non-executive director in June 1997. Trevor Burke is the Company's founder and major shareholder.

Hendrikus Marius Holterman (Aged 42)
Appointed to the Board in December 1997. He is Chief Executive Officer of Reggeborgh Beheer BV, a private Dutch based investment company which has interests in Holland, Germany, China and the United Kingdom.

Board Committees

Audit Committee
The Audit Committee comprises J T Harrison (Committee Chairman); Sir G C Brunton; R Reynolds. 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 1998.

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 Group profit and loss account on page 16. 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 4.

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 within the Group and assistance with retraining.

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

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

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 7 May 1998. The valuation of £0.46 million compares with a net book value shown in the financial statements of £0.79 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 £1.22 million. The Directors consider the market valuation of freehold land and buildings to be inappropriate for the continued use of these assets in the business and accordingly have included land and buildings at their historical cost less accumulated depreciation.

Events since the balance sheet date

The Company has announced that it proposes, subject to shareholder approval, to acquire two companies, GB Mailing Systems Limited and Seaforths Travel Limited. The Extraordinary General Meeting at which shareholders will be asked to vote on the proposed acquisitions is to take place on 13 July 1998.

Research and development

The Group has continued to attach a high priority to research and development throughout the period aimed at the development of new products. During the year ended 31 March 1998, approximately 19% of the Group's staff resources were employed in research and development activities.

Substantial shareholders

As at 18 June 1998 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 Heather Burke*	16,731,403	34.65%
Reggeborgh Participaties B.V.	7,990,000	16.57%
Newton Investment Management Ltd.	5,824,845	12.06%
Mr Ian Woolsey	4,828,832	10.00%
Scottish Widows' Fund & Life Assurance	1,448,000	3.00%

*The shares held by Mrs H Burke include 15,129,033 held by Mr T J Burke, a non-executive 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.

Directors and their interests

The names and brief biographical details of Directors at the date of this report are set out on page 7.

The Directors who served during the year ended 31 March 1998, and details of their interests in the share capital of the Company, are set out in the Remuneration Committee report on pages 10 to 12.

H M Holterman was appointed as a non-executive director to the Board of PhoneLink plc on 12 December 1997. In accordance with the Articles of Association he will retire at the Annual General Meeting and being eligible and willing to be re-appointed, he offers himself for election.

In addition, Sir G C Brunton will retire by rotation and being eligible has indicated his willingness to be re-elected.

At 18 June 1998, the unexpired terms in the contracts of service for H M Holterman and Sir G C Brunton were 6 months and 3 months respectively.

Renewal of authority to allot shares

An Ordinary Resolution will be put to shareholders pursuant to Section 80 of the Companies Act 1985, to authorise the Directors to allot relevant securities without the prior consent of shareholders for a period of five years from the date of the resolution, although it is the Directors' intention to renew this authority annually.

The £398,318 nominal amount of relevant securities to which this authority relates represents approximately 33% of the nominal amount of issued share capital of the Company as at 10 July 1998. Except for the allotment of relevant securities pursuant to the exercise of share options and the share consideration in respect of the acquisitions of GB Mailing Systems Limited and Seaforths Travel Limited as described in the circular to be sent to shareholders, the Directors have no present intention of issuing any shares.

Resolution 7 will be proposed as an ordinary resolution.

Dis-application of pre-emption rights

A Special Resolution will be put to the shareholders pursuant to Section 95 of the Companies Act 1985, empowering the Directors to allot equity securities for cash without first being required to offer such shares to existing shareholders. The £60,351 nominal amount of equity securities to which this authority relates represents approximately 5% of the issued share capital of the Company as at 10 July 1998.

Resolution 8 will be proposed as a special resolution to grant this authority for a period of five years although it is the Directors' intention to renew this authority annually.

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 46.

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*
18 June 1998

Introduction

The members of the committee are Sir G C Brunton (Chairman), J T Harrison and R 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 Company 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 the major consideration when setting the levels of remuneration.

The remuneration packages of executive directors comprise annual salary, share options, 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 1998, 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.

During the year, G Ramsey and R A Law were awarded bonuses of £25,000 and £10,000 respectively in recognition of the work undertaken in achieving the restructuring and rationalisation of the business over the past 12 months.

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

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 a Chief Executive of Mr Ramsey's calibre and ability.

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	**1998**	1997
Sir G C Brunton	**231,103**	115,870
T J Burke	**16,731,403**	20,731,403
G Ramsey	**9,534***	9,534*
R A Law	**9,534**	9,534
J T Harrison	**15,254**	15,254

Included in the beneficial interest of T J Burke are 1,602,370 (1997: 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 which are included by virtue of their status as immediate members of the same family.

*In addition to the shareholding shown above, 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 125,000 shares from the other parties to the agreement. The option is exercisable at anytime from 6 January 1997 at an exercise price of 91p per share. As at 18 June 1998 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 over shares in PhoneLink plc at prevailing market prices at the date of grant.

Options are granted to executive directors at the discretion of the Remuneration Committee and on the basis of their performance.

Set out on page 12 are the interests of the directors in the Executive Share Option Scheme operated by the Company.

At 31 March 1998 the price of the Company's shares quoted on the London Stock Exchange was 42.5p and the highest and lowest prices during the year ended 31 March 1998 were 67p and 30p respectively. There have been no other changes to directors' interests in the shares of the Company from the end of the year to 18 June 1998. 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	1998 Total £'000	1997 Total £'000
Sir G C Brunton	25	–	–	–	10†	35	35
G Ramsey*	155	25	16	16	–	212	46
R A Law*	72	10	5	9	–	96	84
T J Burke* *(resigned as an executive director on 16.6.97)*	22	–	1	1	126††	150	115
T J Burke *(appointed as non-executive director on 16.6.97)*	40	–	–	–	–	40	–
J T Harrison	20	–	–	–	–	20	20
R Reynolds	20	–	–	–	–	20	3
H M Holterman *(appointed 12.12.97)*	–	–	–	–	–	–	–
	354	35	22	26	136	573	303

* denotes executive director

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

†† The amount disclosed under other for T J Burke is the amount relating to his contractual payment following his resignation as executive director on 16 June 1997.

Directors' interests in the Executive Share Option Scheme

	At 31.3.97	Granted during financial year	Exercised during financial year	Lapsed during financial year	At 31.3.98	Option price (P)	Date exercisable
G Ramsey	50,000	–	–	–	50,000	60.00	2000–2007
	200,000	–	–	–	200,000	57.00	2000–2007
	–	200,000	–	–	200,000	36.25	2000–2007
	250,000	200,000	–	–	450,000		
R A Law	41,080	–	–	–	41,080	315.97	1997–2004
	55,000	–	–	–	55,000	200.00	1999–2006
	–	20,000	–	–	20,000	39.50	2000–2007
	–	70,000	–	–	70,000	36.25	2000–2007
	96,080	90,000	–	–	186,080		

No share options were exercised in the year ending 31 March 1998 (1997: Nil).

On behalf of the Remuneration Committee – **Sir G C Brunton** 18 June 1998

Compliance with the code of best practice

In the year to 31 March 1998, the Company has remained in full compliance with the provisions of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance. A statement of the Directors' responsibilities in respect of the accounts is set out on page 14. Below is a brief description of the role of the Board and its Committees followed by statements regarding going concern and the Group's systems of internal financial control. The report by the Company's auditors on corporate governance matters is on page 15.

The workings of the board and its committees

At 18 June 1998, the Board comprised two executive directors and five non-executive directors, and 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 executive directors.

Audit Committee

The Audit Committee comprises non-executive directors and is chaired by Trevor 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.

Remuneration Committee

The Remuneration Committee has the responsibility for determining the remuneration, contract terms and other benefits for executive directors, including the performance-related bonus scheme.

The details of the current membership of each Committee appears on page 7.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to 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 financial 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 also 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.

Statement of directors' responsibilities in respect of the accounts

The following statement, which should be read in conjunction with the Report of the Auditors set out on page 15, 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 being disclosed and explained in the accounts; and
- make judgements and estimates that are reasonable and prudent.

The Directors confirm that they have complied with the above requirements in preparing the accounts.

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.

To the members of PhoneLink plc on the accounts

We have audited the accounts on pages 16 to 27, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 20.

Respective responsibilities of directors and auditors
As described on page 14, 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 mis-statement, 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 1998 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

Ernst & Young
Chartered Accountants
Registered Auditor
Manchester
18 June 1998

To PhoneLink plc on corporate governance matters

In addition to our audit of the accounts we have reviewed the directors' statements on page 13 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).

Basis of opinion
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 Group's system of internal financial control or the Company's 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 13, 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 13 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

Ernst & Young
Chartered Accountants
Manchester
18 June 1998

Group profit and loss account

Year ended 31 March 1998

	Note	1998 £'000	1997 £'000
Turnover: continuing operations	2	3,206	4,316
Cost of sales		(1,843)	(2,544)
Gross profit		1,363	1,772
Other operating expenses	3(b)	(5,659)	(8,517)
Loss from interests in associated undertakings		(73)	(115)
Operating loss: continuing operations	2,3	(4,369)	(6,860)
Interest receivable less payable	5	623	687
Loss on ordinary activities before taxation		(3,746)	(6,173)
Taxation	6	–	–
Loss on ordinary activities after taxation		(3,746)	(6,173)
Dividend		–	–
Amount transferred from reserves	14	(3,746)	(6,173)
Loss per 2.5p ordinary share	7	(7.8)p	(12.9)p

Group statement of total recognised gains and losses

Year ended 31 March 1998

There were no other recognised gains or losses in the year ended 31 March 1998 apart from those shown in the profit and loss account for the year.

As at 31 March 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	8	1,990	2,649
Investments	9	5	640
		1,995	3,289
Current assets			
Stocks	10	9	15
Debtors	11	450	1,784
Cash and short term deposits		8,144	9,628
		8,603	11,427
Creditors: amounts due within one year	12	(925)	(1,297)
Net current assets		7,678	10,130
Total assets less current liabilities		9,673	13,419
Capital and reserves			
Called up share capital	13	1,207	1,207
Share premium account	14	30,544	30,544
Profit and loss account	14	(22,078)	(18,332)
Shareholders' funds attributable to equity interests		9,673	13,419

Approved by the Board on 18 June 1998.

G Ramsey – Director
R A Law – Director

Company balance sheet

As at 31 March 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	8	1,990	2,649
Investments	9	27	661
		2,017	3,310
Current assets			
Stocks	10	9	15
Debtors	11	450	1,784
Cash and short term deposits		8,144	9,628
		8,603	11,427
Creditors: amounts due within one year	12	(925)	(1,297)
Net current assets		7,678	10,130
Total assets less current liabilities		9,695	13,440
Capital and reserves			
Called up share capital	13	1,207	1,207
Share premium account	14	30,544	30,544
Profit and loss account	14	(22,056)	(18,311)
Shareholders' funds attributable to equity interests		9,695	13,440

Approved by the Board on 18 June 1998

G Ramsey – Director
R A Law – Director

	Note	1998 £'000	1998 £'000	1997 £'000	1997 £'000
Net cash outflow from operating activities	16(a)		(2,470)		(5,568)
Returns on investments and servicing of finance					
Interest received		623		689	
Interest element of finance lease rental repayments		–		(2)	
			623		687
Capital expenditure					
Payments to acquire tangible fixed assets		(209)		(945)	
Receipts from the sale of tangible fixed assets		59		119	
			(150)		(826)
Acquisitions and disposals					
Disposal/(investment) of/in associated undertaking			514		(750)
Net cash outflow before use of liquid resources and financing			(1,483)		(6,457)
Management of liquid resources			1,610		(8,790)
Financing					
Proceeds from issue of ordinary shares		–		15,000	
Share issue costs		–		(884)	
Repayment of capital element of finance lease rentals		(1)		(3)	
			(1)		14,113
Increase/(decrease) in cash	16(b)		126		(1,134)

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 drawn up to 31 March each year. No profit and loss account is presented for the Company as permitted by Section 230 of the Companies Act 1985.

Undertakings, other than subsidiary undertakings in which the Group has an investment 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 1998.

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.

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 capitalised in the balance sheet and depreciated over their useful lives. The capital elements of future obligations are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss over the period of the lease and represent a constant proportion of the balance of capital repayments outstanding. Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

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 estimated residual value, of each asset evenly over it's expected useful life as follows:

Freehold buildings	– 2 to 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 to 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:

	1998 £'000	1997 £'000
Depreciation of owned fixed assets	884	907
Operating lease rentals	160	183
Research and development expenditure	1,725	2,606

(b) Operating expenses can be analysed as follows:

	1998 £'000	1997 £'000
Commercial, infrastructure and product development	1,725	2,606
Business development, selling and marketing expenses	2,057	3,598
Administrative expenses	993	1,406
Depreciation of fixed assets	884	907
	5,659	8,517

(c) Auditors' remuneration was as follows:

	1998 £'000	1997 £'000
Audit services	19	18
Non audit services	21	56

4. Staff costs

	1998 £'000	1997 £'000
Wages and salaries	3,172	4,256
Social security costs	310	437
Other pension costs	61	80
	3,543	4,773

Other pension costs are contributions to personal pension plans.

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

	1998 No.	1997 No.
Research and development	20	34
Production	10	17
Selling and administration	77	136
	107	187

The number of employees at 31 March 1998 was 78 (31 March 1997: 136)

Details of the remuneration, pension entitlements and share options of each director are included in the Remuneration Committee Report on pages 10 to 12.

5. Interest receivable less payable

	1998 £'000	1997 £'000
Bank interest receivable	623	689
Finance charges under finance leases and hire purchase agreements	-	(2)
Net interest receivable	623	687

6. Taxation

There was no tax charge/credit for the year.

At 31 March 1998, there were trading losses of £18,151,000 (1997: £15,597,000) for offset against future trading profits. There were also capital losses of £187,000 (1997: £Nil) for offset against future capital gains. At 31 March 1998, there was no potential liability to deferred tax (1997: £Nil).

7. Earnings per ordinary share

Earnings per share have been calculated in accordance with Financial Reporting Standard No. 3 by reference to a loss of £3,746,000 (1997: £6,173,000) and the average number of shares in issue of 48,280,933 (1997: 47,915,636).

8. 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 1997	921	11	81	3,328	630	4,971
Additions	2	–	41	232	11	286
Disposals	–	–	(66)	(45)	(6)	(117)
At 31 March 1998	923	11	56	3,515	635	5,140
Depreciation						
At 1 April 1997	101	8	42	1,917	254	2,322
Provided during the year	37	2	9	736	100	884
Disposals	–	–	(32)	(20)	(4)	(56)
At 31 March 1998	138	10	19	2,633	350	3,150
Net book value						
At 31 March 1998	785	1	37	882	285	1,990
At 1 April 1997	820	3	39	1,411	376	2,649

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 is £Nil (1997: £Nil).

9. Investments
Group

Associated undertakings	£'000
At 1 April 1997	640
Share of loss retained in the year	(73)
Disposals	(562)
At 31 March 1998	5

In August 1997, PhoneLink plc disposed of its 50% share of The Electronic Market Limited for a cash consideration of £514,000 and net assets to the value of £48,000.

Company
Associated undertakings

	£'000
Cost	
At 1 April 1997	777
Disposals	(750)
At 31 March 1998	27
Amounts written off	
At 1 April 1997	116
Disposals	(116)
At 31 March 1998	0
Net book value	
At 31 March 1998	27
At 1 April 1997	661

As at 31 March 1998, details of the investments in which the Group and 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

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

10. Stocks

Group and Company	**1998** £'000	**1997** £'000
Goods for re-sale	1	2
Consumables	8	13
	9	15

11. Debtors
Group and Company

	1998 £'000	1997 £'000
Trade debtors	377	1,088
Due from associated undertakings - trading	1	114
Other debtors, prepayments and accrued income	72	201
Technology agreement debtors	–	381
	450	1,784

All the above amounts are due within one year.

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

	1998 £'000	1997 £'000
Obligations under finance leases and hire purchase agreements	–	1
Trade creditors	375	680
Other taxes and social security costs	86	239
Accruals and deferred income	464	377
	925	1,297

Included in accruals and deferred income are advanced licence receipts of £37,000 (1997: £32,000)

13. Share Capital

	1998 £'000	1997 £'000
Ordinary shares of 2.5p each		
Authorised	1,625	1,625
Allotted, called up and fully paid	1,207	1,207

At 31 March 1998, the following options over shares in the Company were outstanding:

Number of shares	Proportion of issued share capital	Exercise price	Date exercisable
62,904	0.13%	150.93p	1996 to 2003
139,674	0.29%	315.97p	1997 to 2004
41,080	0.09%	211.30p	1998 to 2005
86,000	0.18%	200.00p	1999 to 2006
50,000	0.10%	60.00p	2000 to 2007
200,000	0.41%	57.00p	2000 to 2007
40,000	0.08%	39.50p	2000 to 2007
490,000	1.02%	36.25p	2000 to 2007
1,109,658	2.30%		

14. Reserves

Group

	Share premium £'000	Profit and loss account £'000
At 1 April 1997	30,544	(18,332)
Retained loss for the year	–	(3,746)
At 31 March 1998	30,544	(22,078)

Company

	Share premium £'000	Profit and loss account £'000
At 1 April 1997	30,544	(18,311)
Retained loss for the year	–	(3,745)
At 31 March 1998	30,544	(22,056)

15. Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Total recognised loss	(3,746)	(6,173)
New shares issued	–	14,116
Total movements during the year	(3,746)	7,943
Shareholders' funds attributable to equity interests at 1 April	13,419	5,476
Shareholders' funds attributable to equity interests at 31 March	9,673	13,419

16. Notes to the cashflow statement

a) Reconciliation of operating loss to operating cashflows	1998 £'000	1997 £'000
Operating loss	(4,369)	(6,860)
Depreciation of fixed assets	884	907
Share of loss of associated undertakings	73	115
(Profit)/loss on disposal of tangible fixed assets	(13)	4
Decrease in stocks	6	348
Decrease in debtors	1,320	522
(Decrease) in creditors	(371)	(604)
	(2,470)	(5,568)

b) Reconciliation of net cashflow to movement in net funds

	1998 £'000	1997 £'000
At the beginning of year	9,627	1,968
Decrease in debt	1	3
Increase/(decrease) in cash	126	(1,134)
Movement in short term deposits with banks	(1,610)	8,790
At the end of year	8,144	9,627

c) Analysis of net funds

	At 1 April 1997	Cashflow	At 31 March 1998
Cash in hand and at bank	101	126	227
Short term deposits	9,527	(1,610)	7,917
	9,628	(1,484)	8,144
Finance leases	(1)	1	–
	9,627	(1,483)	8,144

17. Capital commitments
Group and Company

(a) Future capital expenditure
At 31 March 1998, the value of contracts entered into but not performed amounted to £22,000 (1997: £1,000).

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

	1998 £'000	1997 £'000
Operating leases which expire within one year		
Land and buildings	–	6
Other	24	34
	24	40
Operating leases which expire within two to five years		
Land and buildings	52	24
Other	31	103
	83	127
	107	167

Year 2000 and Euro commitments at the year ending 31 March 1998 were £Nil.

18. 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 1998:

Amounts recharged to The Electronic Market Limited in respect of personnel costs and capital expenditure amounted to £67,000 (1997: £45,000) and (£13,000) (1997: £107,000) respectively. The amount owed by The Electronic Market Limited at 31 March 1998 was £Nil (1997: £109,000).

Notice of Annual General Meeting – Phonelink plc

Notice is hereby given that the Annual General Meeting of the above named Company will be held at Suite G, 4th Floor, Russell Chambers, The Piazza, Covent Garden, London WC2E 8AA on 19 August 1998 at 12 noon for the following purposes:

As ordinary business:

1. To receive and adopt the Report of the Directors, the Report of the Auditors and the audited accounts of the Company for the year ended 31 March 1998.
2. To elect Mr H M Holterman as a non-executive Director of the Company.
3. To elect Mr I B Johnston as an executive Director of the Company subject to his appointment to the Board following the Extraordinary General Meeting scheduled to take place on 13 July 1998 to approve the acquisition of GB Mailing Systems Limited as detailed in the Circular to be sent to shareholders.
4. To elect Mr J H Jansen as a non-executive Director of the Company subject to his appointment to the Board following the Extraordinary General Meeting scheduled to take place on 13 July 1998 to approve the acquisition of Seaforths Travel Limited as detailed in the Circular to be sent to shareholders.
5. To re-elect Sir G C Brunton as a non-executive Director of the Company.
6. 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 7 will be proposed as an Ordinary Resolution and Resolution No. 8 shall be proposed as a Special Resolution:

Ordinary resolution

7. 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 18 August 2003; and
   (c) this authority is in addition to any existing authorities under Section 80 of the Companies Act 1985.

Special resolution

8. That, subject to passing of Resolution No. 7 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 18 August 2003.

By Order of the Board,
R A Law
Secretary

Dated 18 June 1998

Registered Office:
John Douglas House,
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.
3. Copies of service contracts of the executive directors of the Company may be inspected at the registed office of the Company at all times during normal business hours and at the place of the Annual General Meeting for a period of 15 minutes immediately prior to the Annual General Meeting until its conclusion.
4. Only members whose names appear on the register of members of the Company at close of business on 17 August 1998 shall be entitled to attend the Annual General Meeting either in person or by proxy and the number of ordinary shares and/or preference shares then registered in their respective names shall determine the number of votes such persons are entitled to cast at the Annual General Meeting.

Form of Proxy for Annual General Meeting, 1998
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 19 August 1998, and at every adjournment thereof. The proxy is directed to vote on the Resolutions 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 H M Holterman as a non-executive Director		
3. Election of Mr I B Johnston as an executive Director		
4. Election of Mr J H Jansen as a non-executive Director		
5. Re-election of Sir G C Brunton as a non-executive Director		
6. Re-appointment of Ernst & Young as auditors and to authorise the Directors to fix their remuneration		
7. Ordinary Resolution set out as Resolution No. 7		
8. Special Resolution set out as Resolution No. 8		

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____________________1998

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 Monday 17 August 1998. 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 3UH

THIRD FOLD AND TUCK IN