TEXT 100 GROUP PLC

(Registered number: 1579589)

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 1999

Finance Director's Review

Overview

In the year ended 31 July 1999, turnover increased by 42%, the second successive year of growth over 40%. This is proof of the success of our growth strategy of developing new markets and by establishing new brands, such as Joe Public Relations, EVUS and extra PR.
Profit before tax increased by 26% to £1.7m and basic earnings per share rose 9% to 4.5p. The profit growth lags behind turnover growth as investment in new offices and new brands takes time to flow through. EPS growth has been additionally held back where profit growth comes in overseas markets with higher tax regimes.

Geographic expansion

The most dynamic expansion of turnover and profit arose in the North American market where the four Text 100 offices delivered a 94% increase in turnover and pre-tax profit of more than US$1m. The development in Asia Pacific this year has involved setting up offices in Singapore and Tokyo and also a regional control structure. This has initially added cost at a faster rate than revenue but has created the infrastructure to make further progress as evidenced by the recent opening of an office in Hong Kong. Europe has experienced good turnover growth particularly in Germany and in the UK separately branded businesses.

Cash flow

The Group achieved an increase in cash during a year that witnessed significant investment in developing the geographic reach of the Group in Asia Pacific. This was achieved by improving control over working capital. In a year when turnover increased by 42%, year-end trade debtor days reduced by 15 days. The net cash inflow from operating activities exceeded the operating profit, which is an excellent cash conversion performance. Tax payments resulted in a cash outflow of £0.6 million. Capital expenditure of £1.1million reflects the Group's ongoing commitment to invest in technology to service our international client base and the expenditure incurred in opening new offices. Some of this expenditure was financed using lease purchase arrangements, which contributed to the small rise in net debt at the year-end, compared with the previous year.

Funding, interest rates, liquidity and exchange risk

The group has in place established treasury policies and procedures to ensure that the group exposure is continually reviewed. The board sets authorisation limits for its employees to bind the Group and before these limits are exceeded board approval must be obtained.
The Group has a new four year term loan facility of £1.9m at 1.85% over UK Base rate and an extended overdraft facility of £1.6m at 1.75% over Base rate, both of which are now available in a combination of currencies. In the year ended 31 July 1999, the overdraft facility was £1.25m at an interest rate of 1.85% over Base rate. All the UK businesses are party to a Composite Accounting System, which allows offset of UK overdrawn and credit bank balances. The Group policy is to concentrate all borrowings in the UK and to hold only modest cash balances in overseas subsidiaries.
At the year-end the gearing level was 14%, including capital expenditure financed through lease purchase. During the financial year ended 31 July 1999 the Group continued to fund its growth primarily from internally generated funds. The Group has sufficient funding in place to finance all development opportunities currently foreseen.
The majority of trade is denominated in the functional currencies of each jurisdiction where the trade is conducted. However there is a minority of trade denominated in a functional currency other than that of the jurisdiction where the trade is conducted. The directors do not consider that the foreign currency exposure risk resulting from this minority trade is material to the group.
The Group does not use derivative instruments to hedge its exposures and therefore there are no reportable hedging gains or losses. The new bank facilities will be used to help hedge the balance sheet exchange risk in the principal functional currencies of the Group.
Further numerical disclosures regarding financial instruments are included in the notes 12,13,14 and 15 to the financial statements. Short term debtors and creditors have been excluded from these disclosures and comparatives have not been provided.

Taxation

The overall tax rate provided on pre-tax profits in the year ended 31 July 1999 was 47% (1998: 40%). This increase in the effective tax rate has arisen for a number of reasons. Firstly, losses have arisen in certain countries in the Asia Pacific region where new offices have opened. These losses cannot be offset against profits made elsewhere but will be available in future years, as these offices become profitable. Secondly, profits have increased more quickly in countries with higher corporate tax rates than the UK. Lastly the Group have provided deferred tax in the UK on accelerated capital allowances. It is anticipated that the effective tax rate will reduce in the current financial year.

Earnings per share (EPS)

The implementation of Financial Reporting Standard 14 "Earnings per share" (FRS 14) has significant implications for companies with shares held in employee share ownership plan trusts. Until such shares vest in employees, FRS 14 requires them to be treated as if they were cancelled for the purpose of calculating EPS. As a consequence the basic and fully diluted EPS have been calculated using this new methodology with last year's figures recalculated. The basic EPS has risen 9% to 4.52p with diluted EPS also up 9% to 4.35p.

Dividends

The ordinary dividend per share has increased 14% to 1.6p and is covered 2.75 times. The dividend growth is less than the growth in pre-tax profit but higher than the EPS growth. The Company has a progressive dividend policy but also recognises the need to retain funds for reinvestment to achieve future growth.

Going concern

The directors have reviewed the Group's budget and cash flow for the year ended 31 July 2000 and forecasts for the following financial year. The directors are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements continue to be prepared on a going concern basis.

David Dewhurst
Group Finance Director

18 November 1999

DIRECTORS, OFFICERS AND ADVISERS

BOARD OF DIRECTORS

Thomas Lewis	Chairman
Timothy Dyson	Chief Executive Officer +
David Dewhurst, ACA	Finance Director
Carlo Crighton	Regional Director – Europe, Middle East and Africa
Aedhmar Hynes-McGovern	Regional Director – North America
Matthew Ravden	Regional Director – Asia Pacific
Sandeep Kalsi	Director
Andrew West	Director
Brendan Magee, FCA	Non-executive #*+
John Rasor	Non-executive #*+
Ian Taylor, MBE, MP	Non-executive #*+

Member of the Audit Committee
* Member of the Remuneration Committee
+ Member of the Nomination Committee

COMPANY SECRETARY AND REGISTERED OFFICE

Amanda Fogg, Solicitor

Network House
Wood Lane
London
W12 7SL
Registered in England and Wales
No: 1579589

PROFESSIONAL ADVISERS

Financial Advisers

ARM Corporate Finance Limited
12 Pepper Street
London
E14 9RP

Bankers

Barclays Bank plc
Corporation Banking Centre
PO Box 385
Onslow Hall
The Little Green
Richmond-Upon-Thames
Surrey TE9 1WB

Solicitors

Theodore Goddard
150 Aldersgate Street
London
EC1A 4EJ

Auditors

Deloitte & Touche
Chartered Accountants
Hill House
1 Little New Street
London EC4A 3TR

Stockbrokers

Sutherlands Limited
Dashwood House
69 Old Broad Street
London
EC2M 1NX

Registrars

Moorgate Registrars PLC
Dukesmead House
39 High Street
Chelmsford
Essex CM1 1DE

TEXT 100 GROUP PLC

DIRECTORS' BIOGRPAHIES

Tom Lewis - *Chairman (aged 43)*

Tom Lewis established Text 100 in 1981 with co-founder Mark Adams. Tom held the post of Managing Director from 1981 to 1991, running a number of the company's most significant accounts. In 1991, he became Executive Chairman and since guiding the Group to a quotation on OFEX in 1997 has been responsible for its relationship with institutional and private investors and professional advisers.

Tim Dyson - *Chief Executive Officer (aged 38)*

Tim Dyson joined Text 100 in 1984 straight from Loughborough University. He became Managing Director in 1991 and now heads the Group's global operations. As one of the early pioneers of IT PR, he has worked with major corporations such as Microsoft, Intel and Gateway. He has also overseen Text 100's own expansion beyond its European roots, including the opening of offices in South Africa, India, Australia, Japan, Singapore and North America, giving the Group a total of 29 offices world-wide.

David Dewhurst ACA - *Finance Director (aged 36)*

David Dewhurst qualified as a Chartered Accountant with KPMG Peat Marwick in 1987. David worked as a corporate accountant and business analyst for Hillsdown Holdings plc between 1988 and 1990 and was then Group Accountant for Premier Brands Limited, one of Hillsdown's subsidiaries. In 1992 David became Group Finance Director for Strong & Fisher Holdings plc before being appointed, in 1997, to the same post at The Media Business Group plc. He joined Text 100 as Finance Director in July this year.

Matthew Ravden - *Regional Director - Asia Pacific (aged 36)*

Matthew Ravden joined Text 100 in 1985 after graduating from Reading University. He was appointed to the Text 100 Board in 1990 and was responsible for the development of the Group's international operations. During this time he was involved in the establishment of new Text 100 operations in France, Germany, Ireland and South Africa. In May 1995, Matthew set up Bite Communications. In December 1998, Matthew relocated to Sydney, where he is heading up Text 100's newly formed Asia Pacific region and is currently responsible for subsidiaries in Sydney, Singapore, Tokyo, Hong Kong and India.

Aedhmar Hynes-McGovern - *Regional Director - North America (aged 33)*

Aedhmar Hynes-McGovern was appointed to the Board in 1997. Prior to her move to the USA to set up the San Francisco office in October 1997, Aedhmar was based in Text 100's London office for seven years. She is Regional Director for the Group's North American operations and works closely with Xerox Corporation and has established Text 100 as Xerox's agency of record in Europe and as one of two key agencies in North America. As global account director for Xerox, she oversees its communications strategy, working with Text 100 teams in six countries and across three continents.

Carlo Crighton - *Regional Director – Europe, Middle East and Africa (aged 35)*

Carlo Crighton has worked with Text 100 for eight years and was appointed to the Board in 1998. Prior to his role as Regional Director with responsibility for EMEA, he set up Text 100 Ireland in 1992 and managed its expansion. Prior to setting up Text 100 Ireland, Carlo was Marketing Manager at the Irish software development company, East Coast Software.

Sandeep Kalsi - *Director (aged 36)*

Sandeep Kalsi worked in the marketing department at the Longman Group prior to joining Text 100 in 1987. He was involved in client services at Text 100's London operation for seven years. Sandeep was appointed to the Board in 1995 and has been involved in start-up operations in South Africa in 1994 and India in 1996, working in a "hands-on" capacity as Managing Director.

TEXT 100 GROUP PLC

DIRECTORS' BIOGRPAHIES

Andrew West - *Director (aged 35)*

Andrew West joined Text 100 in June 1986 after graduating from Aberystwyth University. He moved to another technology PR consultancy and then worked as in-house PR Manager for Tulip Computers. He rejoined Text 100 in 1992, with responsibility for UK new business and marketing. Since his appointment to the Text 100 Board in 1994 he has been responsible for new business development across the Group. He has managed operations in Sweden, Paris and moved to the USA where he established Text 100's East Coast operations in Boston and Rochester. He moved back to the UK this year and now has responsibility for new business development in the EMEA region.

Ian Taylor MBE, MP - *Non-executive Director (aged 54)*

Ian Taylor spent 18 years in investment banking and development capital in London and Paris before being elected as Member of Parliament for Esher in 1987, a seat he held until 1997. Since May 1997 he has been MP for Esher and Walton. He has been a Member of the Science and Technology Select Committee since December 1998 and was Shadow Front Bench Spokesman on Northern Ireland. He was also Minister for Science and Technology at the Department of Trade and Industry from 1994 - 1997, during the last Conservative administration. Since 1997, Ian has become a non-executive director of a number of unquoted companies. He joined the Board in January 1999.

Brendan Magee FCA - *Non-executive Director (aged 44)*

Brendan Magee trained as a Chartered Accountant with Coopers & Lybrand, qualifying in 1982. Since then he has remained in practice as an accountant in Kent. In 1992 Brendan founded Magee Gammon, Chartered Accountants. He is currently Senior Partner of the firm that specialises in advising growth businesses. Brendan was appointed a Director in 1991.

John Rasor - *Non-executive Director (aged 67)*

John Rasor was a reporter for The Associated Press in Tampa, Florida, and an associate editor of The Tampa Tribune before joining Xerox Corporation in 1968. He occupied a variety of marketing communications posts with responsibility for the development and implementation of PR programmes in major markets including the USA, Western Europe and South America, as well as emerging markets in Asia and Eastern Europe. By the time of his retirement from Xerox in 1999, John had occupied the post of Director of World-wide Strategic Public Relations. He is president of CalCom a strategic business communications consultancy based in Rochester and joined the Board in July 1999.

TEXT 100 GROUP PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 JULY 1999

The Directors present their annual report together with the audited financial statements of Text 100 Group plc ("the Company") and its subsidiaries ("the Group") for the year ended 31 July 1999.

PRINCIPAL ACTIVITY

The principal activity of the Group during the year continued to be that of the provision of public and press relations services, dealing principally with clients in the high-technology sector.

REVIEW OF BUSINESS AND FUTURE PROSPECTS

The state of the Group's affairs during the year and at the balance sheet date was satisfactory. A review of the business, current trading and future developments is given in the letter from the Chairman, letter from the CEO and Finance Director's review.

DIVIDENDS AND RESULTS

Interim dividends of £234k (1998: £204k) were paid during the year. A further interim dividend of 0.4p per share is proposed, making the total for the year £309k (1998: £287k). The Group made a profit attributable to members of the holding company for the year of £853k (1998: £791k).

DIRECTORS AND THEIR INTERESTS

The directors and their interests in the shares of the Company were:

		Ordinary shares of 5p each	Ordinary shares of 5p each
		31 July 1999	31 July 1998
T Lewis (Chairman)		4,664,497	4,931,771
M Adams	(Resigned 7 July 1999)	4,397,430	4,950,410
T Dyson		3,239,580	3,285,614
M Ravden		2,487,834	2,487,834
K Kemp	(Resigned 7 July 1999)	762,060	762,060
A West		759,060	759,060
S Kalsi		658,221	134,591
B Magee		110,650	110,650
D M Dewhurst	(Appointed 7 July 1999)	30,000	-
A Hynes-McGovern		16,000	16,000
C Crighton		11,248	-
I Taylor	(Appointed 12 January 1999)	10,000	-
J Rasor	(Appointed 7 July 1999)	-	-

The market price of the Company's shares traded on OFEX during the period 1 August 1998 to 31 July 1999 was as follows :

Price at 1 August 1998	82.5p
Highest price	98p
Lowest price	68p
Price at 31 July 1999	94.5p

The directors have no other interests in shares or debentures of the Company such as would be required to be disclosed by the Companies Act 1985.

TEXT 100 GROUP PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 JULY 1999 (CONTINUED)

NEW SUBSIDIARIES

During the year, the following new subsidiaries were formed :

Name	Country of incorporation and operation
Text One Hundred Japan K.K.	Japan
Text 100 PTE Ltd	Singapore
Joe Public Relations Ltd	England
EVUS Ltd	England

Full details of all of the Group's subsidiary undertakings are shown in Note 11 to these financial statements.

CHARITABLE DONATIONS

During the year the Group made charitable donations of £5k (1998 : £2k) to the Charities Aid Foundation under a Give As You Earn scheme.

PAYMENTS TO SUPPLIERS

It is the policy of the Company to agree suitable terms and conditions for its business transactions with suppliers. These terms and conditions range from standard written terms to individually drafted contracts. Once such terms are agreed, it is the Company's policy to adhere fully to them, including payment schedules, provided the supplier has also complied with the terms and conditions.

EMPLOYEE INVOLVEMENT

The Group operates a policy of regularly informing all employees of the Group's financial performance. In addition the Group's Employee Share Option Scheme and bonus scheme encourages employees at all levels to contribute to the achievement of the Group's short and long term goals.

EMPLOYMENT OF DISABLED PERSONS

The Group gives full and fair consideration to all applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. The Group's policies for training, career development and promotion policies do not disadvantage these employees.

YEAR 2000

The Y2K issue has been widely publicised by the government and the media. It relates to the transition of dates on computer based systems from 1999 to 2000. The Directors have taken and will continue to take steps to minimise the potential vulnerability of the Group's systems to this problem. To date all significant systems, which are within the Group's direct control, have been tested for Y2K compliance and are believed to be compliant. In addition, the Group has liased with its major suppliers and has received assurances that work continues in order to ensure that all their systems will be Y2K compliant and that there will be minimal disruptions to the Group, if any, as a consequence of the Y2K issues. However, there can be no guarantees that the steps taken by any company will successfully minimise vulnerabilities of its software and systems, or those of its suppliers, to the problems associated with the transition to the year 2000. No guarantees can be given that either the Group's systems or third party systems will function satisfactorily or that, if problems occur, they will not have a material adverse effect on the Group's operations and financial performance. The costs of Y2K compliance have not been specifically calculated, as the Directors do not consider them to be material.

TEXT 100 GROUP PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 JULY 1999 (CONTINUED)

ECONOMIC AND MONETARY UNION IN EUROPE (EMU)

The Group's European companies, including those in the United Kingdom, have prepared for the transition to a single currency within Europe. These companies will continue to develop their strategies for EMU throughout the transition period and will continue to maintain the capability to conduct business in both national and European currencies as long as is necessary. The decision as to when to adopt the Euro as a subsidiary's functional currency will be a local decision to be made by each subsidiary, having regard to the speed of transition to the Euro in their local economy. The directors do not consider the costs of Euro implementation to be material to the group and there are no commitments relating to this at the balance sheet date.

The Group does not currently expect to report its results in euros until after the entry of the United Kingdom to EMU.

AUDITORS

During the year PricewaterhouseCoopers resigned as auditors. The Directors have temporarily appointed Deloitte & Touche and a resolution to appoint them as auditors will be proposed at the Annual General Meeting in accordance with Section 385 (2) of the Companies Act 1985.

By Order of the Board

~~Amanda Fogg~~ DAVID DEWHURST
~~Company Secretary~~ FINANCE DIRECTOR
18 November 1999

CORPORATE GOVERNANCE

FOR THE YEAR ENDED 31 JULY 1999

The board is committed to adopting and implementing the provisions of the Combined Code produced by the Committee on Corporate Governance when the Company becomes listed on the London Stock Exchange.

In the year ended 31 July 1999 progress has been made with the appointment of a third non-executive director, John Rasor who sits on the Audit Committee, Remuneration Committee and Nominations Committee. The board believes this provides the appropriate balance of independent non-executive directors for their views to carry significant weight in the board's decisions even though in number they comprise slightly less than one third.

The Company operates a system of internal financial control that the board considers appropriate to the size and geographic spread of its operations. This system of internal financial control is designed to give the board reasonable assurance as to the reliability of financial information within the business and for outside publication.

The board recognises the need to conduct a formal review of the Group's system of internal control and risk management and report on this to shareholders, in line with the guidance issued by the Turnbull Working Party on Internal Control. The board will report on its progress towards achieving this in the Annual Report for the year ended 31 July 2000.

REMUNERATION REPORT

FOR THE YEAR ENDED 31 JULY 1999

THE CONSTITUTION AND RESPONSIBILITY OF THE REMUNERATION COMMITTEE

The Remuneration Committee's principal function is to determine the remuneration packages of the Group's executive Directors. It takes into consideration the performance of the executive directors and sets the scale and structure of their remuneration and the basis of their service agreements with due regard to the interests of shareholders. No executive director may participate in decisions regarding his own remuneration.

The Committee also makes recommendations to the board concerning the allocation of both share options and bonuses to employees.

The Committee consists solely of non-executive directors, Ian Taylor (Chairman), John Rasor and Brendan Magee. The Committee has access to professional advice as and when it considers it necessary.

REMUNERATION POLICY

In determining remuneration packages, the Remuneration Committee has regard to the importance of attracting, retaining and motivating executive directors of the calibre required to continue the Group's growth and development. In arriving at its recommendations, the committee considers salary surveys covering the international PR industry as well as quoted UK companies of a comparable size. As several of the Group's main board directors are located in overseas cities, the Committee also considers published cost-of-living surveys for the appropriate countries and cities.

Directors' remuneration include an element of performance related pay so that directors' awards can be aligned to improvements in shareholders' value. The level of these bonuses is entirely at the discretion of the Remuneration Committee. These bonuses are based on the Committee's assessment of several factors covering the performance of individual Directors, of the board as a whole and of the Group as a whole.

DIRECTORS' SERVICE CONTRACTS

All executive Directors have rolling contracts which are terminable on 6 months notice. A West, S Kalsi and A Hynes-McGovern are due to retire by rotation and offer themselves for re-election.

NON-EXECUTIVE DIRECTORS

The executive Directors are responsible for setting the non-executive directors' fees. Under the terms of their appointment all non-executive Directors' appointments are terminable by either party on three months' notice to expire at any time.

TEXT 100 GROUP PLC

REMUNERATION REPORT (continued)

DIRECTORS' REMUNERATION

	Salary and Fees £'000	Performance related bonus £'000	Pension contributions £'000	Taxable benefits £'000	1999 Total £'000	1998 Total £'000
Executive Directors:						
T Lewis	70	-	6	1	77	92
T Dyson	124	-	6	-	130	141
D Dewhurst (1)	7	-	-	7	14	-
C Crighton	82	15	6	1	104	48
A Hynes-Mcgovern	117	15	6	3	141	130
M Ravden	107	-	6	-	113	111
S Kalsi	93	6	6	1	106	120
A West	113	6	6	-	125	136
M Adams (2)	74	-	6	1	81	94
K Kemp (3)	104	6	6	4	120	134
M Lucas	-	-	-	-	-	87
Non-Executive Directors:						
B Magee	63	-	-	-	63	44
J Rasor (4)	9	-	-	-	9	-
I Taylor (5)	12	-	-	-	12	-
	975	48	54	18	1,095	1,137

(1) D Dewhurst was appointed on 7 July 1999.
(2) M Adams resigned on 7 July 1999.
(3) K Kemp resigned on 7 July 1999.
(4) J Rasor was appointed on 7 July 1999.
(5) I Taylor was appointed 12 January 1999.

DIRECTORS' SHARE OPTIONS

At 31 July 1999, the following directors held options to purchase 5p ordinary shares :

	Date granted	Number of share options	Exercise price / share	Unexercised share options at 31 July 1999	Unexercised share options at 31 July 1998
A Hynes-McGovern	5.2.1997	77,420	9.8p	77,420	77,420
	29.1.1999	60,000	69.5p	60,000	-
	30.7.1999	90,000	94.5p	90,000	-
C Crighton	5.2.1997	38,709	9.8p	38,709	38,709
	19.5.1998	60,000	79.5p	60,000	60,000
	30.7.1999	90,000	94.5p	90,000	-
D Dewhurst	30.7.1999	75,000	94.5p	75,000	-
S Kalsi	19.5.1998	20,000	79.5p	20,000	20,000
A West	15.9.1998	20,000	77.5p	20,000	-

REMUNERATION REPORT (continued)

The share options become exercisable on the following dates :

- The first one third of the total number granted on the third anniversary of the date of granting;
- The second one third of the total number granted on the fourth anniversary of the date of granting; and
- The final one third of the total number granted on the fifth anniversary of the date of granting.

The share options held by the director cannot be exercised after the earlier of one of the following events:

- 12 months after the death of the director;
- One month after the date on which a Court sanctions an arrangement under s.425 of the Companies Act 1985;
- The date of cessation of the director's employment by the Group; or
- 10 years after the date on which the share options were granted.

By Order of the Board

I Taylor

Chairman of Remuneration Committee
18 November 1999

TEXT 100 GROUP PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

REPORT OF THE AUDITORS TO THE MEMBERS OF TEXT 100 GROUP PLC

We have audited the financial statements on pages 14 to 33 which have been prepared under the accounting policies set out on pages 19 and 20.

Respective responsibilities of directors and auditors

As described on page 12 the Company's and Group's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

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

Deloitte & Touche

Deloitte & Touche
Chartered Accountants
and Registered Auditors
Hill House
1 Little New Street
London
EC4A 3TR

18 November 1999

TEXT 100 GROUP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JULY 1999

		Year ended 31 July 1999 £'000		Year ended 31 July 1998 £'000
TURNOVER (Note 2)		22,771		16,028
Other external charges		(3,882)		(2,331)
TURNOVER LESS OTHER EXTERNAL CHARGES		18,889		13,697
Staff costs (Note 4)	11,027		7,124	
Depreciation	653		452	
Other operating charges	5,412		4,733	
		(17,092)		(12,309)
OPERATING PROFIT (Note 3)		1,797		1,388
Interest receivable and similar income (Note 5)		14		8
Interest payable and similar charges (Note 6)		(111)		(42)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,700		1,354
Tax on profit on ordinary activities (Note 7)		(801)		(539)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		899		815
MINORITY INTERESTS		(46)		(24)
PROFIT ATTRIBUTABLE TO MEMBERS OF THE HOLDING COMPANY		853		791
Equity dividends paid and proposed (Note 8)		(309)		(287)
RETAINED PROFIT FOR THE FINANCIAL YEAR (Note 18)		544		504
BASIC EARNINGS PER SHARE (Note 9)		4.52p		4.15p
DILUTED EARNINGS PER SHARE (Note 9)		4.35p		4.00p

There are no differences between the profit stated on an historical cost basis and the profit as presented above and therefore no note of historical cost profits and losses is presented.

The profit and loss account for the year ended 31 July 1999 and the preceding year relate to the continuing activities of the Group.

The Company's profit after tax for the financial year was £56k (1998: £404k)

The accompanying notes on pages 19 to 33 form an integral part of these financial statements.

TEXT 100 GROUP PLC

CONSOLIDATED BALANCE SHEET

AS AT 31 JULY 1999

		1999		1998 (restated)
		£'000		£'000
FIXED ASSETS				
Tangible assets (Note 10)		1,741		1,317
Investments (Note 11)		1,509		844
		3,250		2,161
CURRENT ASSETS				
Debtors (Note 12)	6,469		4,956	
Cash at bank and in hand (Note 13)	562		346	
	7,031		5,302	
CREDITORS - Amounts falling due within one year (Note 14)	(5,538)		(4,023)	
NET CURRENT ASSETS		1,493		1,279
TOTAL ASSETS LESS CURRENT LIABILITIES		4,743		3,440
CREDITORS - Amounts falling due after more than one year (Note 15)		(409)		(303)
PROVISIONS FOR LIABILITES AND CHARGE – Deferred tax (Note 16)		(22)		-
NET ASSETS		4,312		3,137
EQUITY CAPITAL AND RESERVES				
Called up share capital (Note 17)		1,071		1,040
Share premium account (Note 18)		1,162		604
Profit and loss account (Note 18)		2,009		1,465
TOTAL EQUITY SHAREHOLDERS' FUNDS (Note 19)		4,242		3,109
MINORITY INTERESTS		70		28
		4,312		3,137

APPROVED BY THE BOARD ON
18 NOVEMBER 1999

T Lewis
CHAIRMAN

D Dewhurst
GROUP FINANCE DIRECTOR

The accompanying notes on pages 19 to 33 form an integral part of these financial statements.

TEXT 100 GROUP PLC

COMPANY BALANCE SHEET

AS AT 31 JULY 1999

		1999		1998 (restated)
		£'000		£'000
FIXED ASSETS				
Tangible assets (Note 10)		-		796
Investments (Note 11)		1,536		867
		1,536		1,663
CURRENT ASSETS				
Debtors (Note 12)	3,988		3,393	
Cash at bank and in hand	6		114	
	3,994		3,507	
CREDITORS – Amounts falling due within one year (Note 14)	(2,797)		(2,691)	
NET CURRENT ASSETS		1,197		816
TOTAL ASSETS LESS CURRENT LIABILITIES		2,733		2,479
CREDITORS – Amounts falling due after more than one year (Note 15)		(200)		(282)
NET ASSETS		2,533		2,197
EQUITY CAPITAL AND RESERVES				
Called up share capital (Note 17)		1,071		1,040
Share premium account (Note 18)		1,162		604
Profit and loss account (Note 18)		300		553
TOTAL EQUITY SHAREHOLDERS' FUNDS		2,533		2,197

APPROVED BY THE BOARD ON
18 NOVEMBER 1999

T Lewis
CHAIRMAN

D Dewhurst
GROUP FINANCE DIRECTOR

The accompanying notes on pages 19 to 33 form an integral part of these financial statements.

TEXT 100 GROUP PLC

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 JULY 1999

		1999		1998
	£'000	£'000	£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 24 (1))		2,225		792
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	13		8	
Interest paid	(111)		(43)	
Minority interest dividends paid	(7)		(11)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(105)		(46)
NET CASH OUTFLOW FROM TAXATION				
Corporation tax paid		(604)		(170)
CAPITAL EXPENDITURE AND INVESTING ACTIVITIES				
Payments for long term deposits	(52)		(42)	
Payments to purchase own shares	(200)		-	
Payments to acquire tangible fixed assets	(1,102)		(1,139)	
Receipts from sales of tangible fixed assets	112		139	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND INVESTING ACTIVITIES		(1,242)		(1,042)
EQUITY DIVIDENDS PAID		(306)		(219)
NET CASH OUTFLOW BEFORE FINANCING (Note 24 (3))		(32)		(685)
FINANCING				
Long term bank loan	-		200	
Net capital inflow on hire purchase contracts	297		36	
NET CASH INFLOW FROM FINANCING		297		236
INCREASE/(DECREASE) IN CASH FOR THE YEAR (Note 24 (3))		265		(449)

TEXT 100 GROUP PLC

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 JULY 1999

	1999 £'000	1998 £'000
Profit attributable to members of the holding company	853	791
Currency translation differences on foreign currency net investments	-	(35)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	853	756

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 1999

1 ACCOUNTING POLICIES

The Group's and the Company's financial statements are prepared in accordance with applicable accounting standards. The principal accounting policies are as follows:

(1) Basis of preparation

The financial statements are prepared under the historical cost convention.

The Group's financial statements consolidate the financial statements of Text 100 Group plc and all of its subsidiary undertakings drawn up to 31 July each year using the acquisition method of accounting. No profit and loss account has been presented for the Company as permitted by section 230 of the Companies Act 1985.

The consolidated financial statements are available to the public and can be obtained from Network House, Wood Lane, London W12 7SL.

(2) Turnover

Turnover represents the invoiced value of services supplied excluding all sales taxes after adjusting for any change in the level of accrued income during the year.

(3) Accrued income and profit taking

Accrued income is valued on the basis of the cost of services provided up to the balance sheet date and not yet invoiced. Profit is taken on all work completed by that date.

(4) Depreciation

Depreciation is provided on all tangible fixed assets at annual rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Leasehold premises	Over the term of the lease, or until the first break clause
Office equipment	33% per annum straight line
Office furniture	20% per annum straight line
Motor vehicles	25% per annum straight line

(5) Financial Instruments

Group
Subsidiaries and branches whose accounts are prepared in foreign currencies are translated on consolidation using the closing rate method. Exchange differences arising on retranslation of opening net assets of foreign subsidiaries and branches are taken to reserves. Details of the Group's use of financial instruments are included in notes 12,13,14 and 15 and on page 2 of the Finance Director's review.

Company
Monetary assets and liabilities denominated in foreign currencies are expressed in sterling at the rate of exchange ruling at the balance sheet date. Foreign currency transactions are expressed in sterling at the rate of exchange ruling at the date of the transaction. Exchange gains and losses and translation differences are taken directly to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS –

FOR THE YEAR ENDED 31 JULY 1999 (continued)

1 **ACCOUNTING POLICIES (continued)**

(6) Hire purchase and leasing transactions

Assets financed by hire purchase are included in the balance sheet at cost less accumulated depreciation. The interest element on these obligations is charged to the profit and loss account so as to approximate a constant interest rate over the life of each agreement. Operating lease rentals are charged to the profit and loss account as incurred.

(7) Pension costs

Pension costs, which relate to payments to employees' own defined contribution pension plans, are charged to the profit and loss account as incurred.

(8) Investments

Fixed asset investments in group undertakings are stated at cost less provisions for impairment in value.

2 **SEGMENTAL INFORMATION**

Analysis of turnover, profit before taxation and net assets by geographic origin and destination.

	Year ended 31 July 1999			Year ended 31 July 1998		
	Turnover	Profit before taxation	Net assets	Turnover	Profit before taxation	Net assets
	£'000	£'000	£'000	£'000	£'000	£'000
Europe, Middle East & Africa	18,450	1,261	3,813	13,850	1,217	2,908
North America	3,481	705	537	1,791	35	60
Asia Pacific	840	(266)	(38)	387	102	169
	22,771	1,700	4,312	16,028	1,354	3,137

The turnover relates to one class of business.

The directors consider these regions to be separate geographic markets and the markets within which the group operates.

TEXT 100 GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS –

FOR THE YEAR ENDED 31 JULY 1999 (continued)

3. OPERATING PROFIT

Operating profit is stated after charging / (crediting) :-		1999 £'000	1998 £'000
Auditor's remuneration:	audit services - Company only	5	27
	audit services – rest of Group	55	25
	non-audit services	-	31
Depreciation of tangible fixed assets:	owned	555	390
	on hire purchase	98	62
Profit on disposal of tangible fixed assets		(84)	(43)
Exchange movements		(28)	(37)
Operating lease income		(42)	(13)
Operating lease rentals:	plant and machinery	73	42
	other	618	331

4. STAFF COSTS AND DIRECTORS' EMOLUMENTS

	1999 £'000	1998 £'000
Wages and salaries	9,845	6,439
Social security costs	1,005	553
Other pension contributions	177	132
	11,027	7,124

The 1998 staff costs have been reclassified. PAYE costs of £1,004k that were classified as social security costs in the prior year financial statements are now classified within wages and salaries.

The average monthly number of employees during the year by geographic location was as follows:		1999 No.'s	1998 No.'s
Directors		9	10
Other staff :	Europe	241	185
	Rest of the World	85	56
		335	251

Directors' emoluments

	1999 £'000	1998 £'000
Aggregate emoluments	1,041	1,082
Pensions	54	55
	1,095	1,137

The number of directors to whom retirement benefits are accruing is 7 (1998: 10).

TEXT 100 GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS –

FOR THE YEAR ENDED 31 JULY 1999 (continued)

4. STAFF COSTS AND DIRECTORS' EMOLUMENTS (CONTINUED)

	1999	1998
Emoluments of the highest paid director :	£'000	£'000
Aggregate emoluments	141	141
Group contributions to director's pension scheme	6	6

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	1999	1998
	£'000	£'000
Bank interest	14	8

6 INTEREST PAYABLE AND SIMILAR CHARGES

	1999	1998
	£'000	£'000
Bank interest	68	5
Other interest and similar charges	43	37
	111	42

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999	1998
	£'000	£'000
UK corporation tax at 30.67% (1998: 31%) on the results for the year	339	308
Overseas taxation	495	227
Prior year (over)/ under provision	(55)	4
Deferred taxation	22	-
	801	539

The tax charge is disproportionately high due to high rates of tax in some overseas territories where profits are significantly higher than last year, and losses in certain overseas subsidiaries which cannot be offset against profit of group companies in other countries.

8 EQUITY DIVIDENDS PAID AND PROPOSED

	1999 £'000	1998 £'000
Interim dividends of 1 pence per ordinary share	-	204
Final dividend of 0.4 pence per ordinary share	-	83
Interim dividends of 1.2 pence per ordinary share	234	-
Interim dividend of 0.4 pence per ordinary share proposed	75	-
	309	287

In accordance with FRS 14 the dividends paid to the ESOP, of £26k, have been eliminated on consolidation.

9 EARNINGS PER SHARE

Earnings per share have been calculated in accordance with FRS14, using earnings of £853k (1998: £791k) and the weighted average number of ordinary shares in issue of 18,845,187 (1998: 19,059,258). Diluted earnings per share have also been calculated based on the weighted average number of ordinary shares in issue, as adjusted by the dilutive potential ordinary shares, of 19,582,528 (1998: 19,756,033).

TEXT 100 GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS –

FOR THE YEAR ENDED 31 JULY 1999 (continued)

10 **TANGIBLE ASSETS**

GROUP

	Short Leasehold Premises £'000	Office Equipment £'000	Office Furniture £'000	Motor Vehicles £'000	Total £'000
COST					
At 1 August 1998	142	1,556	520	509	2,727
Exchange differences	-	2	2	-	4
Additions	21	698	200	183	1,102
Disposals	(1)	(2)	(4)	(182)	(189)
At 31 July 1999	162	2,254	718	510	3,644
DEPRECIATION					
At 1 August 1998	46	954	179	231	1,410
Exchange differences	-	1	-	-	1
Charge for the year	12	419	113	109	653
Disposals	-	(31)	(2)	(128)	(161)
At 31 July 1999	58	1,343	290	212	1,903
NET BOOK AMOUNT					
As at 31 July 1999	104	911	428	298	1,741
As at 31 July 1998	96	602	341	278	1,317

The net book amount of tangible fixed assets includes £476k (1998: £253k) in respect of assets held under hire purchase contracts.

10 TANGIBLE ASSETS (CONTINUED)

COMPANY

	Short Leasehold Premises £'000	Office Equipment £'000	Office Furniture £'000	Motor Vehicles £'000	Total £'000
COST					
At 1 August 1998	96	1,005	368	417	1,886
Disposals	(96)	(1,005)	(368)	(417)	(1,886)
At 31 July 1999	-	-	-	-	-
DEPRECIATION					
At 1 August 1998	44	711	142	193	1,090
Disposals	(44)	(711)	(142)	(193)	(1,090)
At 31 July 1999	-	-	-	-	-
NET BOOK AMOUNT					
As at 31 July 1999	-	-	-	-	-
As at 31 July 1998	52	294	226	224	796

The net book amount of tangible fixed assets includes £nil (1998: £157k) in respect of assets held under hire purchase contracts.

11 INVESTMENTS

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Subsidiary undertakings	-	-	27	23
Investment in own shares	1,509	844	1,509	844
	1,509	844	1,536	867

Subsidiary undertakings :

Directly held

Name	Country of incorporation	Cost of Investment at 31 July 1999 £'000	Cost of Investment at 31 July 1998 £'000	% voting rights held by Company	% voting rights held by Group
Text 100 International Ltd	England	1	1	100	100
Bite Communications Ltd	England	1	1	60	92.5
Bite Staff Incentives Ltd	England	1	1	100	100
Joe Public Staff Incentives Ltd	England	1	-	100	100
Joe Public Relations Ltd	England	1	-	62.5	92.5
EVUS Ltd	England	1	-	85	85
AUGUST.ONE COMMUNICATIONS Ltd	England	1	-	100	100
Text 100 GmbH	Germany	20	20	90	90
Total		27	23		

Indirectly held

Name	Country of incorporation	% voting rights held by group
Text 100 SARL	France	100
Text 100 Ireland Limited	Ireland	100
Text 100 (Pty) Limited	South Africa	100
Text 100 BV	Netherlands	100
Text 100 Corp	USA	100
Text 100 AB	Sweden	100
Text 100 (P) Limited	India	100
Text 100 SL	Spain	100
Text 100 Srl	Italy	100
Text 100 Pty Limited	Australia	100
Text 100 Limited	England	100
Text 100 PTE Ltd	Singapore	100
Text 100 Japan KK	Japan	90
Text 100 AIME Ltd	England	100

11 INVESTMENTS (continued)

Text 100 PTE Ltd was incorporated on 7 October 1998.
Text 100 Japan KK was incorporated on 14 December 1998.

The directors consider the value of investments in subsidiary undertakings to be not less than that stated in the balance sheet of the Company.

All subsidiary companies are included in the consolidation.

The principal activity of all of the subsidiary undertakings is public relations work specialising in the high-technology sector.

Investment in own shares

The investment in own shares of £1,509k (1998 : £844k) represents the cost of shares held by the Company Employee Share Ownership Plan Trust (ESOP) in the Company at 31 July 1999. The nominal value of shares held is £133k (1998 : £98k) and the market value at 31 July 1999 was £2,510k .

12 DEBTORS

	Group		Company	
	1999	1998 (restated)	1999	1998 (restated)
	£'000	£'000	£'000	£'000
Trade debtors	5,087	4,211	-	1,894
Amount due from subsidiary undertakings	-	-	2,564	586
Other debtors	79	89	-	69
Prepayments and accrued income	1,193	598	-	319
Dividends receivable	-	-	1,424	520
Long term deposits:				
Due after more than one year	110	58	-	5
	6,469	4,956	3,988	3,393

The 1998 debtors have been restated to include long term deposits which were included as fixed assets in the 1998 financial statements. Long term deposits represent the value of deposits provided as security on the Group's leases. These are denominated in US$ - £50k, Indian Rupees - £22k, DM - £19k, Yen - £11k, French Francs - £8k and are non-interest bearing. The directors consider the fair value of these deposits not to be materially different from their carrying value.

13 CASH

The table below shows the denomination of the cash held by the Group.

	1999 £'000	1998 £'000
Euros	281	154
US Dollars	127	112
Swedish Krona	69	13
Other	85	67
	562	346

The return on cash held is earned by reference to the inter-bank rates in the local jurisdictions. The value of the cash held represents its fair value.

14 CREDITORS: Amounts falling due within one year

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Bank overdraft	477	526	753	248
Obligations under hire purchase contracts	261	75	-	58
Trade creditors	944	640	-	282
Amount due to subsidiary undertakings	-	-	1,906	648
Corporation tax	868	692	-	189
Other taxation and social security	844	439	-	290
Other creditors	327	440	3	192
Accruals and deferred income	1,721	1,124	49	701
Dividends	96	87	86	83
	5,538	4,023	2,797	2,691

The bank overdraft is secured by a fixed and floating charge over the Company's assets. The interest charged on this facility is 1.85% over UK base rate. £30k of the overdraft is denominated in Irish Punts and is held by the Irish operating company. During the year the weighted average interest rate on this facility was 8.8%.

The Group has a new four year term loan facility of £1.9m at 1.85% over UK Base rate and an extended overdraft facility of £1.6m at 1.75% over Base rate. This facility is repayable on demand. These became available after 1 November 1999. The directors consider the fair value of the overdraft to be equal to its carrying value.

The obligations under hire purchase contracts are secured on the assets concerned.

TEXT 100 GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS –

FOR THE YEAR ENDED 31 JULY 1999 (continued)

15 CREDITORS: Amounts falling due after more than one year

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Obligations under hire purchase contracts	202	91	-	82
Bank loan (note 23)	200	200	200	200
Other creditors	7	12	-	-
	409	303	200	282

The obligations under hire purchase contracts are secured on the assets concerned and are all repayable between one and two years. All hire purchase contracts are from inception two years in duration. Finance leases are denominated in three functional currencies for which the weighted average interest rates are: Sterling 9.9%, Dollars 10.8% and Irish Punt 12.4%. The directors consider the fair value of the hire purchase contracts to be equal to their carrying value.

The bank loan which is denominated in sterling accrues interest at 2% over UK base rate and is repayable on 30 June 2001. The directors consider the fair value of the loan to be equal to its carrying value.

16 PROVISIONS FOR LIABILITIES AND CHARGES

The entire provision relates to deferred tax; the amounts both provided and unprovided in the accounts are as follows:

	Provided	Provided	Unprovided	Unprovided
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Capital allowances in excess of depreciation	22	-	-	8
Other short term timing differences	-	-	(22)	-
	22	-	(22)	8

17 CALLED UP SHARE CAPITAL

	1999 £'000	1998 £'000
Authorised		
21,424,000 (1998 : 20,800,000) ordinary shares of 5p each	1,071	1,040
Allotted, called up and fully paid		
21,424,000 (1998 : 20,800,000) ordinary shares of 5p each	1,071	1,040

On 30 July 1999 624,000 shares were issued and purchased by the company's Employee Share Option Plan Trust for a total consideration of £589k (see note 23) giving rise to a share premium reserve of £558k (see note 18).

18 RESERVES

GROUP

	Profit & loss account £'000	Share premium account £'000	Total reserves £'000
Opening balance	1,465	604	2,069
Share premium (note 17)	-	558	558
Retained profit for the year	544	-	544
Closing balance	2,009	1,162	3,171

COMPANY

	Profit & loss account £'000	Share premium account £'000	Total reserves £'000
Opening balance	553	604	1,157
Share premium (note 17)	-	558	558
Retained loss for the year	(253)	-	(253)
Closing balance	300	1,162	1,462

TEXT 100 GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS -

FOR THE YEAR ENDED 31 JULY 1999 (continued)

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £'000	1998 £'000
Profit attributable to members of the parent company	853	791
Currency translation differences on foreign currency net investments	-	(35)
Dividends	(309)	(287)
Issue of share capital	589	644
Net addition to shareholders' funds	1,133	1,113
Opening shareholders' funds	3,109	1,996
Closing shareholders' funds	4,242	3,109

20 DIRECTORS' INTERESTS AND RELATED PARTIES

During the year the Company paid consultancy fees to the following organisations in which directors had a material interest:

Director	Organisation	1999 £	1998 £
S Kalsi	Equinox Associates Limited	63,250	63,045
B P Magee	Magee Gammon	63,279	44,350
I Taylor	Fentiman Consultants Limited	13,749	-

At 31 July 1999 there was a balance of £nil (1998: £4,653) owing to Magee Gammon, £nil (1998: £nil) to Equinox Associates Limited and £nil (1999: £nil) to Fentiman Consultants.

During the year consultancy fees of £2,291 (1998: £9,559) were paid to Modus Communications Limited, a company wholly owned by Mr R Topping, who is the husband of K Kemp, a director of the Company. The trade with this company was conducted at arm's length in the ordinary course of business. At 31 July 1999 £nil (1998 : £nil) was outstanding.

During the year fees of £2,785 (1998: £nil) were paid to J Rasor for consultancy in addition to his role as director. At 31 July 1999 £1,667 (1998: £nil) was outstanding.

The Company and Group has taken advantage of paragraph 3 of the Financial Reporting Standard 8 Related Party Disclosures, in not disclosing transactions with group undertakings.

21 PENSION COSTS

Employees of the Group belong to defined contribution pension plans, the assets of which are held separately from those of the Group.

22 OPERATING LEASE COMMITMENTS

The Group has entered into operating leases and has annual commitments under these expiring as follows:

	1999		1998	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Within one year	47	104	63	6
Between one and five years	425	122	324	62
After five years	306	-	210	-

23 EMPLOYEE SHARE OWNERSHIP PLAN TRUST (ESOP)

The purpose of the ESOP is to enable the Company to offer participation in the ownership of its shares to its employees principally as a reward and incentive scheme.

Arrangements for the distribution of benefits to employees which may be the ownership of shares in the Company or the granting of options over shares in the Company held by the ESOP are made at the ESOP's discretion in such manner as the ESOP considers appropriate.

Administration costs of the ESOP are accounted for in the profit and loss account of the Company as they are incurred.

At 31 July 1999 the ESOP held 2,656,562 (1998: 1,951,481) ordinary shares of 5p each in the Company, the market value of which was 94.5p (1998: 82.5p) each being a total of £2,510k (1998: £1,610k). Of these shares, 899,981 were gifted to the ESOP on 27 January 1997 at nil cost. The Company issued a further 800,000 shares to the ESOP on 6 April 1998 at a cost of £644k. This was funded by a loan from the company of £644k. The ESOP purchased a further 251,500 shares on 19 May 1998 from three directors for a total consideration of £200k. These purchases were funded by a £200k bank loan (see note 15). The Group has guaranteed the loan. On 26 July 1999 81,081 shares were purchased from Mark Adams, a former director, for a consideration of £75k. At the year end this amount was unpaid. On 30 July 1999 a further 624,000 shares were issued by the company to the ESOP for a consideration of £589k. This was funded by a loan from the company of £589k.The right to receive dividends on all shares has not been waived.

At 31 July 1999 options over 1,825,886 (1998 : 1,481,886) shares had been granted to employees of the Company by the ESOP.

NOTES TO THE FINANCIAL STATEMENTS –

FOR THE YEAR ENDED 31 JULY 1999 (continued)

24 NOTES TO THE CASH FLOW STATEMENT

(1) Reconciliation of operating profit to net cash inflow from operating activities

	1999 £'000	1998 £'000
Operating profit	1,797	1,388
Depreciation	653	452
Exchange movements	7	(31)
Profit on sale of tangible fixed assets	(84)	(43)
Increase in debtors	(1,461)	(1,502)
Increase in creditors	1,313	528
Net cash inflow from operating activities	2,225	792

(2) Analysis of changes in net funds during the year

	31 July 1998 £'000	Cash flows £'000	Other changes £'000	31 July 1999 £'000
Cash at bank and in hand	346	216	-	562
Bank overdraft	(526)	49	-	(477)
Bank loans due after one year	(200)	-	-	(200)
Hire purchase contracts	(166)	(268)	(29)	(463)
Net funds	(546)	(3)	(29)	(578)

(3) Reconciliation of net cash flow to movement in net funds

	1999 £'000	1998 £'000
Increase/(decrease) in cash at bank and in hand in the year	216	(109)
Cash inflow/(outflow) from decrease in bank overdraft	49	(340)
Increase/(decrease) in cash for the year	265	(449)
Cash outflow from bank loan	-	(200)
Net cash outflow under hire purchase contracts	(268)	(19)
Changes in net funds from cash flows	(3)	(668)
Interest element of hire purchase contract payments	(29)	(17)
Movement in net debt in the year	(32)	(685)
Net (debt)/funds at 1 August 1998	(546)	139
Net (debt)/funds at 31 July 1999	(578)	(546)