

Directors' Report

for the year ended 31 March 2000



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 of the Group and of the profit and loss and cash flows of the Company and of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- 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 of the Group 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.

Share capital

The Group's Employee Share Trust subscribed for 1,874,000 Ordinary shares immediately prior to the flotation of the Company, in May 1999. Details of other changes in share capital including the issue of shares on flotation, are set out in note 18 to the financial statements.

Significant shareholdings

At the date of this report, the Company has been notified of the following interests over its Ordinary shares in accordance with Sections 198 to 208 of the Companies Act 1985.

• Andy Baker	9,642,858 (25.5%)	• Employee Share Trust	1,874,000 (4.9%)
• Les Clark	9,932,331 (26.2%)	• Fidelity Investment Services Ltd	1,779,808 (4.7%)
• Schroder Investment Mgmt Ltd	2,720,000 (7.2%)	• Standard Life Assurance Co	1,419,542 (3.7%)

Human resources

The Company values the contribution that its employees make to the success of the business. Substantial investment is made in the training, development and motivation of staff with particular focus on ensuring customer satisfaction through the consistent achievement of high standards of personal care and service. The involvement of employees in the success of the business is encouraged through Company-wide communications and consultation programmes. Employee share participation is encouraged through the Company's share option schemes.

The Company endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of sex, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

Charitable and political donations

Contributions to charitable organisations in the United Kingdom amounted to £1,512 (1998: £4,000). No political donations were made.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office. In accordance with Section 385(i) of the Companies Act 1985, a resolution will be proposed at the Annual General Meeting to reappoint them at a remuneration to be agreed by the Directors.

By Order of the Board

C J Adkins

Secretary

19 June 2000

Corporate Governance

The policy of the Board is to manage the affairs of the Company in accordance with the Principles of Good Governance and Code of Best Practice as set out in Section 1 of the Combined Code annexed to the Listing Rules of the London Stock Exchange.

Compliance with code provisions

The Company has complied with the Code provisions set out in Section 1 of the Combined Code with the exception of the instances detailed below:

The Board has not identified a senior independent Director in the annual report, as recommended by code provision A2.1 and as detailed below, the Audit Committee comprises only 2 Non-Executive Directors and not 3 as recommended by code provision D3.1. The Board considers its current composition to be appropriate given the size and complexity of the Group's operations.

Application of principles of Good Governance

Directors

The Directors believe it is essential that the Company is lead and controlled by an effective Board. The Board consists of 4 executive members and 2 independent Non-Executives.

In order to ensure its effectiveness, the Board meets regularly (at least 6 times a year) and has a formal schedule of matters specifically reserved for its decision. The Board sets the Company's policy on matters such as overall strategy, financial performance, budget approval and risk management. All Directors have access to independent professional advice and to the services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and procedures are complied with.

Directors' remuneration

Details of Directors' remuneration, and the process for its determination, are contained in the Remuneration report.

Relations with shareholders

The Board is committed to maintaining a regular dialogue with its institutional shareholders, and encourages private investors to attend and participate in the AGM.

Accountability and audit

To assist it in carrying out its duties, the Board has established an Audit Committee consisting of 2 Non-Executive Directors which is chaired by Glyn Hirsch. The Committee reviews financial statements to be published externally before submission to the Board, to ensure they present a fair assessment of the Group's position and prospects. It also authorises any change in accounting policy. The Committee meets bi-annually with the auditors without executive management being present.

Internal control

The Board has established procedures necessary to implement the requirements of the Combined Code relating to internal control, as set out in the ICAEW's document "Internal Control – Guidance for Directors on the Combined Code" ("The Turnbull Report"), throughout the financial year ending 31 March 2001.

For the year ended 31 March 2000, the Board has adopted the transitional approach set out in the Letter from the London Stock Exchange dated 27 September 1999, and has therefore reported below on its system of internal financial controls in accordance with "Internal Control and Financial Reporting – Guidance for Directors of listed companies registered in the UK" (the "Rutteman Guidance").

The Directors acknowledge that they are responsible for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute assurance against material mis-statement or loss.

Considerable importance is placed upon the maintenance of a strong control environment, with a simple organisational structure and clearly drawn lines of accountability and authority. The Board promotes a culture of quality and integrity, and financial risks are identified and appraised both formally, through the annual budgeting process, and informally through the close monitoring of operations. Financial results are reported throughout the year, and variances from approved budgets monitored and investigated. Control procedures exist throughout the group's operations, compliance with which is monitored by management, and to the extent that they consider it necessary to support their audit report, the external auditors.

During the year, the Directors' have conducted a review of the effectiveness of the Group's system of internal financial control. It has also reviewed the need for an internal audit function, but considered this to be unnecessary, given the size and lack of complexity of the Group, and the close involvement of the executive Directors in the day to day operations of the Group.

Going concern

The Directors have reviewed the Group's budget for the forthcoming financial year, its medium term plans and its financing facilities, and concluded that it has adequate financial resources required to continue in operational existence for the foreseeable future.

Remuneration Report

The Board has established a Remuneration Committee with formal terms of reference which include making recommendations on the Company's framework of executive remuneration and its cost, and determining on behalf of the Board the specific remuneration, benefits and employment packages of the Chairman of the Company and its Executive Directors.

The Remuneration Committee

The Remuneration Committee is chaired by Robin Saxby and its other member is Glyn Hirsch. Neither member has any personal financial interest other than as shareholders in the matters to be decided, no potential conflict of interest arising from cross directorships and no day to day involvement in running the business of the Group.

The Committee regularly reviews the Company's remuneration policies and practices to enable it to make appropriate recommendations to the Board. In determining appropriate remuneration packages, the Committee consults with both internal and external professional advisers and specifically pays attention to pay and employment conditions existing within the Group, including current and anticipated levels of pay increases.

The Chairman and the Chief Executive are in attendance at Committee meetings except for when their own remuneration is being considered.

Company policy on Directors' remuneration

The Committee's policy on Executive Directors' remuneration is designed to ensure that the Chairman and Executive Directors are rewarded competitively in relation to other companies in order to attract, retain and motivate them to meet the reasonable expectations of shareholders. The principal elements of the policy, which has been approved by the Board, are as follows:

- All benefits including pensions will be provided on the basis that they are consistent with good practice among comparable companies and are market competitive.
- Base salaries will aim to be market competitive with similar positions in comparable companies.
- In addition to base salary, Directors will be given the opportunity to receive additional remuneration based on their contribution to the overall performance of the Company.
- The balance between base salary, annual bonuses and longer-term incentive arrangements will be adjusted to conform to market competitive practice amongst comparable companies, using a total remuneration methodology.
- Directors' annual bonuses, which will be paid in cash, are not pensionable.
- Share options will play a part in the Company's remuneration policy. The number and frequency of issue will reflect market competitive practice.
- Executive Directors are eligible to participate in the Gtel Personal Pension Plan detailed in note 21 to the financial statements.
- Remuneration of the Non-Executive Directors is considered by the Board as a whole.

The annual bonus scheme operated in the year provided for cash bonuses dependent upon the achievement of profit targets.

The Committee considers that the performance conditions applying to annual bonus schemes are relevant, stretching and designed to enhance the business and that this results-driven approach is in the interests of shareholders.

Sean Cheek earned a bonus of £6,256 for the period that he served as a Director. All other bonuses were waived.

Remuneration Report (continued)

Remuneration

The remuneration of the Chairman and all other Directors in the year is detailed in the table below :

	Fees/Salary		Benefits		Bonus		Total emoluments (excluding pensions)	
	2000 £000	1999* £000	2000 £000	1999 £000	2000 £000	1999 £000	2000 £000	1999 £000
Chairman and Executive Directors								
Les Clark	159	188	10	21	—	—	169	209
Andy Baker	153	187	11	20	—	—	164	207
Sean Cheek (Appointed 1 December 1999)**	47		4		6	—	57	
Chris Adkins	112	95	1	1	—	15	113	111
Non-Executive Directors								
Glyn Hirsch (Appointed 23 April 1999)**	17		—		—	—	17	
Robin Saxby (Appointed 23 April 1999)**	17		—		—	—	17	
Total	505	470	26	42	6	15	537	527

*Fees/salary paid in the year ended 31 March 1999 for Les Clark, Andy Baker and Chris Adkins include £28,000, £28,000 and £25,000, respectively, paid to related parties.

** Total emoluments paid are from the date of appointment.

The aggregate value of contributions payable by the Group in respect of Directors who were members of the Glotel Personal Pension Plan was as set out below:

	Total contribution	
	2000 £000	1999 £000
Chairman and Executive Directors		
Les Clark	—	—
Sean Cheek	1	—
Chris Adkins	5	3
Total	6	3

Pension contributions payable by the Group in respect of Les Clark's personal pension plan amounted to £20,000 during the year ended 31 March 1999.

Remuneration Report (continued)

Directors interests: shares and options

On 12 March 1999 the Company adopted The Glotel Plc Company Share Option Plan ("SOP"). The Plan Rules consist of two parts. Part A of the Plan was approved under the provisions of Schedule 9 to the Income and Corporation Taxes Act 1988 by the Board of the Inland Revenue on 26 March 1999. Part B of the Plan is not approved under the provisions of the Act.

On 11 May 1999 Glotel adopted the Savings Related Share Option Plan ("SRS") which is generally open to all full time employees and Directors. Inland Revenue rules limit the maximum amount which can be saved to £250 per month. Options are granted to acquire the number of shares that the total savings will buy when the savings contracts mature, in accordance with the rules of the scheme.

The Directors' interests in shares of the Company, including options to purchase Ordinary shares under the terms of SOP and SRS are given below:

	31 March 2000				31 March 1999 (or date of appointment if later)	
	Ordinary shares	SOP	SRS	Exercise price (p)	Exercise Period	Ordinary shares * SOP /SRS*
Les Clark	9,932,331	-	6,054	160p	1/8/02-1/2/03	12,500,000 -
Andy Baker	9,642,858	-	10,546	160p	1/8/04-1/2/05	12,500,000 -
Sean Cheek		625,000	-	12.752p	1/4/00-1/4/07	625,000
		115,000**	-	140p	1/4/02-10/5/09	115,000
		-	10,546	160p	1/8/04-1/2/05	10,546
Chris Adkins	35,000	20,000	-	76p	1/4/02-19/4/09	-
		75,000**	-	140p	11/5/02-10/5/09	-
		-	6,054	160p	1/8/02-1/2/03	-
Glyn Hirsch	5,000	-	-	-	-	-
Robin Saxby	35,000	-	-	-	-	-

* Comparative figures are adjusted to take account of the share consolidation and bonus issue occurring on 11 May 1999.

**The exercise of these options is subject to performance criteria based upon growth in earnings per share.

None of the Directors exercised share options during the year, and no options lapsed. During the year 10,546 SRS options were granted to Andy Baker and Sean Cheek and 6,054 SRS options were granted to Les Clark and Chris Adkins. In addition 95,000 SOP options were granted to Chris Adkins.

The market price of an Ordinary Share at 31 March 2000 was 627p and the range since flotation on 19 May 1999 was 140p to 737p.

In addition to the above interests, pursuant to the provisions of the Companies Act 1985, each executive Director is deemed to be interested in the Ordinary shares of the Company held by The Glotel Plc Employee Share Trust. At 31 March 2000 the interest was in a total of 1,874,000 Ordinary shares.

There were no changes in the interests of the current Directors between 1 April 2000 and the date of this report.

The Company's Register of Directors' interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe for shares.

Service agreements

The Executive Directors have service contracts which can be terminated on 12 months' notice. The Non-Executive Directors' service agreements with the Company do not provide for payment on termination of their engagement.

Auditors' report to the shareholders of Glotel Plc

We have audited the financial statements on pages 20 to 37 which have been prepared under the historical cost convention and the accounting policies set out on pages 24 and 25, including the information on Directors' remuneration on pages 17 and 18.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 14, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom Accounting Standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our professions ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements.

We review whether the statements on page 15 reflect the Company's compliance with the provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if they do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of Audit 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 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2000 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
London
19 June 2000

PricewaterhouseCoopers

Consolidated profit and loss account

	Note	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Turnover	2	132,367	102,078
Cost of sales		(103,999)	(79,617)
Gross profit		28,368	22,461
Administrative expenses		(21,978)	(18,048)
Operating profit	2	6,390	4,413
Interest payable and similar charges (net)	3	(186)	(911)
Profit on ordinary activities before taxation	2,3	6,204	3,502
Tax on profit on ordinary activities	6	(2,407)	(1,309)
Profit on ordinary activities after taxation		3,797	2,193
Dividends	7	(1,260)	(960)
Retained profit for the year		2,537	1,233
Basic earnings per share	8	10.98p	8.77p
Diluted earnings per share	8	10.31p	-

As permitted by section 230 of the Companies Act 1985, a profit and loss account for Glotel Plc has not been presented in these accounts. The amount of profit after taxation and dividends for the financial period dealt with in the accounts of Glotel Plc is £3,129,763 (1999: £49,900).

The results for the year and the prior year derive from continuing operations.

There is no difference between the profit as disclosed in the profit and loss account and that in on an unmodified historical cost basis.

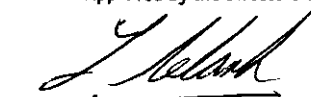
Consolidated statement of total recognised gains and losses

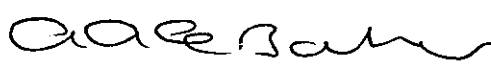
	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Profit for the financial year	3,797	2,193
Currency translation difference on foreign currency investments	(62)	40
Total recognised gains and losses relating to the financial year	3,735	2,233

Balance sheets

	Note	The Group		The Company	
		31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Fixed assets					
Tangible assets	9	3,097	2,003	-	-
Investments	10	713	-	713	-
		3,810	2,003	713	-
Current assets					
Debtors	11	27,778	24,118	18,131	50
Cash at bank and in hand		4,322	845	-	-
		32,100	24,963	18,131	50
Creditors – amounts falling due within one year	12	(15,251)	(23,134)	(1,260)	-
Net current assets		16,849	1,829	16,871	50
Total assets less current liabilities		20,659	3,832	17,584	50
Creditors – amounts falling due after more than one year	13	(25)	(227)	-	-
Provisions for liabilities and charges	15	(150)	-	-	-
		20,484	3,605	17,584	50
Capital and reserves					
Called up share capital	18	1,894	50	1,894	50
Share premium account	20	15,685	-	15,685	-
Other reserves	20	100	100	-	-
Profit and loss account	20	2,805	3,455	5	-
Equity shareholders' funds	17	20,484	3,605	17,584	50

Approved by the Directors on 19 June 2000


Les Clark
 (Chairman)


Andy Baker
 (Chief Executive)

Consolidated cash flow statement

	Note	Year ended 31 March 2000 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 1999 £'000
Net cash inflow/(outflow) from operating activities	(i)		5,240		(187)
Returns on investment and servicing of finance					
Interest received		28		-	
Interest paid		(178)		(884)	
Interest element of hire purchase payments		(36)		(27)	
Net cash outflow from returns on investment and servicing of finance			(186)		(911)
Taxation					
Corporate taxes paid		(1,561)		(812)	
Tax paid			(1,561)		(812)
Capital expenditure					
Payments to acquire fixed assets		(2,271)		(1,019)	
Receipts from sale of fixed assets		403		59	
Net cash outflow from capital expenditure			(1,868)		(960)
Equity dividends paid			(300)		(660)
Net cash inflow/(outflow) before financing			1,325		(3,530)
Financing					
Capital element of hire purchase payments		(664)		(299)	
Issue of ordinary share capital (net of costs)		13,691		-	
Net (repayment)/drawdown of loans		(11,470)		4,824	
Net cash inflow from financing			1,557		4,525
Increase in cash in the year	(iii)		2,882		995

Notes to the consolidated cash flow statement

(i) Reconciliation of operating profit to net cash flow from operating activities

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Operating profit	6,390	4,413
Depreciation charges	1,100	780
Profit on sale of fixed assets	(135)	(17)
Increase in debtors	(3,728)	(9,316)
Increase in creditors	1,463	3,953
Increase in provisions for liabilities and charges	150	-
Net cash inflow/(outflow) from operating activities	5,240	(187)

(ii) Reconciliation of net cash flow to movement in net funds/(debt)

Note	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Increase in cash in the year	2,882	995
Net cash outflow/(inflow) from decrease/(increase) in debt	12,134	(4,525)
Change in net debt resulting from cash flows	15,016	(3,530)
New hire purchase contracts	(190)	(547)
Translation difference	63	(107)
Movement in net debt in the period	14,889	(4,184)
Net debt at 1 April	(12,022)	(7,838)
Net funds/(debt) at 31 March	2,867	(12,022)

(iii) Analysis of changes in net funds/(debt)

	At 1 April 1999 £'000	Cash flow £'000	Other changes £'000	Exchange differences £'000	At 31 March 2000 £'000
Cash at bank and in hand	845	3,487	-	(10)	4,322
Overdraft	(722)	(605)	-	-	(1,327)
	123	2,882	-	(10)	2,995
Hire purchase	(514)	664	(190)		(40)
Other loans:					
due within one year	(11,587)	11,426		73	(88)
due after one year	(44)	44			-
Net funds/(debt)	(12,022)	15,016	(190)	63	2,867

The other changes represent the inception of new hire purchase contracts entered into during the year.

Notes to the financial statements

1 Accounting policies

(a) Accounting convention

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

In accounting for the Glotel Plc Group reconstruction, effected on 12 March 1999, the Directors have departed from the requirements of the Companies Act 1985 ('the Act'). An explanation of this departure is given in note (b), below.

(b) Group reconstruction

The Company was incorporated as Glotel Holdings Limited on 29 January 1999.

On 12 March 1999 the shareholders contributed to the Company 100,000 shares of £1 each in Glotel Plc for nil consideration. This contribution represented the entire issued share capital of Glotel Plc.

On 26 March 1999 the Company changed its name to Glotel Plc and the company previously called Glotel Plc changed its name to Glotel Holdings Plc. The Company re-registered as a public limited company on the same date.

This Group reconstruction has been accounted for as a merger using the Group reconstruction provisions set out in FRS 6 (Acquisitions and Mergers). Sections 10(1)(a) and (b) of Schedule 4A of Companies Act 1985 set out certain of the conditions for merger accounting principles to be adopted. Such conditions include that the acquisition of an undertaking by a parent company must be attained pursuant to an arrangement providing for the issue of equity shares by the parent company or one or more of its subsidiary undertakings. The Group reconstruction described above did not satisfy this condition. However, in the opinion of the Directors it would have been inappropriate to account for the Group reconstruction using acquisition accounting as it does not alter the relative rights or ownership interests of the ultimate shareholders of the Group. This departure from the requirements of the Act, is, in the opinion of the Directors, necessary for the financial statements to give a true and fair view.

Had the provisions of the Act in this respect been followed and the transaction accounted for using acquisition accounting the net assets of the subsidiaries acquired by the Company would have been recorded in the consolidated balance sheet at their fair values and the resulting negative goodwill recognised in the consolidated balance sheet. As an exercise to determine the fair values of the net assets of the acquired subsidiaries was not performed, the value of this negative goodwill and the period over which it would subsequently have been recognised in the consolidated profit and loss account can not be determined.

In addition, had merger accounting not been adopted, the other reserve totalling £100,000 would not have arisen and the consolidated profit and loss account for the year ended 31 March 1999 would only have consolidated the results of the Company's subsidiaries for the period from 12 March 1999 to 31 March 1999.

(c) Basis of consolidation

The Group financial statements consolidate the financial statements of Glotel Plc and its subsidiaries for the year ended 31 March 2000.

(d) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation.

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

Motor vehicles	25%	straight line
Computer equipment	33⅓% to 50%	straight line
Office equipment	20%	straight line
Fixtures and fittings	20%	straight line

(e) Foreign currency translation

Company – Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities at the year end are translated at the rates ruling at the balance sheet date. All differences are taken to the profit and loss account.

Group – The net assets of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising on the re-translation of the opening net assets of overseas subsidiary undertakings are taken directly to reserves. The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at average rates of exchange.

1 Accounting policies (continued)

(f) *Employee Share Trust*

The Group's Employee Share Trust ("EST") is a separately administered trust which is funded by loans and gifts from the Group, and the assets of which comprise shares in the Company. Shares in the Company held by the EST are shown at their estimated recoverable amount being the option price of the shares payable by employees. In respect of shares subscribed for in May 1999, the amounts contributed to the EST in excess of the option price have been charged to reserves.

(g) *Hire purchase contracts*

Where assets are financed by hire purchase contracts that give rights approximating to ownership, the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum hire purchase payments payable during the contract term. The corresponding commitments are shown as obligations under hire purchase contracts. Depreciation on relevant assets is charged to the profit and loss account. Hire purchase payments are treated as consisting of capital and interest elements and are charged to the profit and loss account on a straight line basis over the term of the contract.

(h) *Operating leases*

Where assets are financed by leasing agreements which are not hire purchase contracts (see above), the total lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

(i) *Deferred taxation*

Deferred taxation is provided using the liability method on all short term timing differences except where, in the opinion of the Directors, a liability is unlikely to arise. Provision is also made for long term timing differences where those differences are expected to reverse in the foreseeable future. Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is expected.

(j) *Investments*

Investments held as fixed assets are stated at cost less amounts provided for impairment.

(k) *Pensions*

Pension contributions made by the Group to employees' personal pension plans are charged to the profit and loss account in the period to which they relate.

(l) *Adoption of new financial reporting standards*

Where applicable the provisions of the following new financial reporting standards have been adopted in preparing these financial statements:

FRS13, Derivatives and Other Financial Instruments
FRS15, Tangible Fixed Assets
FRS16, Current Tax

The application of these new standards had no impact on the Group's net assets or profits in the current and prior years.

Notes to the financial statements (continued)

2 Turnover and segmental information

Turnover represents the invoiced amount of services provided net of value added taxation. The Group operates in one principal area of activity, that being the provision of consultants (predominantly in telecommunications and networking) on a contract basis. The geographical split of the results of the Group is as follows:

tax	Turnover		Operating profit		Profit before	
	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
United Kingdom:						
Comms People UK	56,676	47,611	3,834	3,468	3,837	3,165
Comms People International*	11,667	6,740	1,240	805	1,228	792
Other businesses	9,158	7,818	857	355	823	260
Total United Kingdom	77,501	62,169	5,931	4,628	5,888	4,217
North America	41,186	31,598	3,012	1,714	2,774	1,328
The Netherlands*	9,174	4,718	435	240	390	209
Australia and Singapore*	4,506	3,593	284	255	269	221
	132,367	102,078	9,662	6,837	9,321	5,975
Central activities	-	-	(3,272)	(2,424)	(3,117)	(2,473)
Total Group	132,367	102,078	6,390	4,413	6,204	3,502
*Total International	25,347	15,051	1,959	1,300	1,887	1,222

Comms People UK and Comms People International are divisions of Comms People Ltd (the Group's principal UK trading company).

The turnover figures above represent sales to third parties by geographical origin. The split of the turnover of the Group by geographical destination is as follows:

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
United Kingdom	65,834	55,429
North America	41,186	31,598
The Netherlands	9,174	4,718
Australia and Singapore	4,506	3,593
Rest of the world	11,667	6,740
Total Group	132,367	102,078

The geographical split of the net assets of the Group is as follows:

	Net assets/(liabilities)	
	31 March 2000 £'000	31 March 1999 £'000
United Kingdom	17,872	2,884
North America	2,241	893
The Netherlands	195	(43)
Australia and Singapore	176	(129)
Total Group	20,484	3,605

3 Profit on ordinary activities before taxation

The profit on ordinary activities is stated after charging:

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Depreciation		
On leased assets	221	187
On owned assets	879	593
	1,100	780
Operating lease rentals		
Plant and machinery	32	44
Properties and other	1,117	773
	1,149	817
Net interest payable and similar charges		
Bank overdrafts	92	23
Other loans	86	861
Hire purchase interest	36	27
Total interest payable and similar charges	214	911
Interest receivable and similar income	(28)	-
Net interest payable and similar charges	186	911

4 Auditors' remuneration

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Audit fees		
Parent company	10	10
Subsidiaries	104	83
	114	93
Non-audit fees		
United Kingdom	404	240
Overseas	29	26
	433	266

Notes to the financial statements (continued)

5 a) Staff costs (including Directors)

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Wages and salaries	11,702	8,971
Social security costs	1,300	864
Other pension costs	95	109
	13,097	9,944

The average number of staff during the year was:

	Year ended 31 March 2000	Year ended 31 March 1999
United Kingdom	154	135
North America	90	75
The Netherlands	11	6
Australia and Singapore	13	10
	268	226

All employees are engaged in either the operation, management or administration of the Group.

5 b) Directors' remuneration

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
<i>Emoluments including pensions and benefits in kind</i>		
Total Directors' emoluments	543	550
Emoluments of the highest paid Director	169	229

Pension contributions payable by the Group in respect of the highest paid Director amounted to £nil during the year ended 31 March 2000 (1999: £20,000).

The aggregate value of pension contributions payable by the Group in respect of the Directors who were members of the Glotel Personal Pension Plan was £6,000 (1999: £3,000). As at 31 March 2000 retirement benefits were accruing under this Plan in respect of two Directors (1999: one Director).

Further details of Directors remuneration are shown in the Remuneration report on pages 17 and 18, which form part of the financial statements.

6 Tax on profit on ordinary activities

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Based on the profit for the year:		
UK Corporation tax at 30% (1999: 31%)	1,188	973
Overseas tax		
Current	1,174	285
Deferred	45	51
	2,407	1,309

The Group tax charge has been increased to an effective rate above 30% principally due to the effect of overseas taxation being charged at a rate above 30%.

	31 March 2000 £'000	31 March 1999 £'000
Deferred tax		
Deferred taxation assets recognised in the financial statements comprise:		
Accelerated capital allowances	15	21
Other timing differences	5	44
	20	65

The amounts of unrecognised deferred taxation assets are as follows:

Accelerated capital allowances	139	101
Other timing differences	(41)	49
	98	150

7 Dividends

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Interim paid	-	660
Final proposed	1,260	300
Total dividends paid and proposed	1,260	960
Dividends per share	3.5p	3.84p

The calculation of dividends per share for the year ended 31 March 1999 has been based upon 25,000,000 Ordinary shares in issue throughout the year being the number of Ordinary shares in issue restated for the bonus issue and share consolidation which took place on 11 May 1999 (see Note 18).

The calculation of dividends per share for the year ended 31 March 2000 has been based upon 36,003,761 Ordinary shares in issue at the year end. The Employee Share Trust has agreed to waive dividends on the 1,874,000 shares held by it.

Notes to the financial statements (continued)

8 Earnings per share

The weighted average numbers of shares used in the calculation of the basic earnings per share are set out below:

	Year ended 31 March 2000 Average number of shares	Year ended 31 March 2000 Earnings per share pence	Year ended 31 March 1999 Average number of shares (restated)	Year ended 31 March 1999 Earnings per share pence (restated)
Basic earnings per share	34,582,863	10.98	25,000,000	8.77
Diluted earnings per share	36,814,744	10.31	n/a	n/a

The calculation of basic and diluted earnings per share has been based on profit for the financial year of £3,797,000 (1999: £2,193,000).

The calculation of the comparative basic earnings per share has been restated to take into consideration the bonus issue and share consolidation which took place on 11 May 1999.

The calculation of comparative diluted earnings per share, assuming the full exercise of outstanding share options, in accordance with Financial Reporting Standard 14 ('Earnings per Share') has not been performed as there is no historical market price for shares in the Company and accordingly it is not possible to calculate the dilutive effect.

9 Tangible fixed assets – The Group

	Motor vehicles £'000	Computer and office equipment £'000	Fixtures and fittings £'000	Leasehold improvements £'000	Total £'000
Cost					
At 1 April 1999	1,600	1,635	521	–	3,756
Additions	806	880	93	686	2,465
Disposals	(868)	(1)	–	–	(869)
Exchange difference	(4)	7	2	(1)	4
At 31 March 2000	1,534	2,521	616	685	5,356
Accumulated depreciation					
At 1 April 1999	736	793	224	–	1,753
Charge for the year	358	586	96	60	1,100
Applicable to disposals	(596)	(1)	–	–	(597)
Exchange difference	(1)	4	1	(1)	3
At 31 March 2000	497	1,382	321	59	2,259
Net book value					
At 31 March 2000	1,037	1,139	295	626	3,097
At 31 March 1999	864	842	297	–	2,003

Included in the above are motor vehicles held under hire purchase contracts with a net book value of £34,000 (1999: £462,000).

10 Investments

	The Group		The Company	
	31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Cost				
At 1 April	-	-	-	-
Additions – own shares	713	-	713	-
At 31 March	713	-	713	-

The investments represent 1,874,000 shares in Glotel Plc held by the Group's Employee Share Trust ("EST"), established by the Company during the year. The Company established the EST to acquire new shares in the Company for the benefit of employees and Directors of the Group. On 19 May 1999, the Company provided £2,623,600 for this purpose of which £1,910,900 was by way of a gift and £712,700 was by way of a loan. On 19 May 1999, the EST subscribed for 1,874,000 of the Company's 5p ordinary shares. The shares rank *pari passu* in all respects with the existing ordinary shares. They will be allocated to employees and Directors to satisfy their options granted under the Company's shares option schemes. The cost of the gift has been transferred by the Company directly to the profit and loss account reserve. The excess of the subscription price over the nominal value of the shares issued, which amounts to £2,529,900, has been taken to the share premium account.

The shares held by the EST at 31 March 2000 have been included in the Company's balance sheet, as investments in own shares, at a value of £712,700, which is equivalent to the amounts receivable from employees on exercise of their options. The market value of the shares at 31 March 2000 was £11,749,980.

Under the terms of the trust deed, dividends have been waived on the shares held by the EST, and all costs relating to the scheme are dealt with in the profit and loss account as they accrue.

The following are subsidiaries of the Company:

Name of company	Country of incorporation	Principal activity	Type of shares	Proportion of shares held by the Group
Comms People Ltd	England	Providing telecommunications consultants	£1 Ord shares	100%
Comms People, Inc	USA	Providing telecommunications consultants	US\$1 Ord shares	100%
Contract Accountants PLC	England	Providing consultant accountants	£1 Ord shares	100%
Comms People (Australasia) Pty Ltd	Australia	Providing telecommunications consultants	Aus \$1 Ord shares	100%
Global Telecommunications Resource Ltd	England	Telecommunications consultancy	£1 Ord shares	100%
Glotel IT Ltd	England	Providing IT consultants	£1 Ord shares	100%
Glotel Accounting Systems PLC	England	Providing computerised accounting solutions	£1 Ord shares	100%
Comms People BV	The Netherlands	Providing telecommunications consultants	Dfl 1,000 Ord shares	100%
Glotel Holdings Plc (previously Glotel Plc)*	England	Intermediate holding company	£1 Ord shares	100%
PC People Ltd	England	Dormant	£1 Ord shares	100%
Glotel Contract Personnel Ltd	England	Dormant	£1 Ord shares	100%
Comms & PC People Ltd	England	Dormant	£1 Ord shares	100%
Comms & PC People (UK) Ltd	England	Dormant	£1 Ord shares	100%
Comms & PC People (Europe) Ltd	England	Dormant	£1 Ord shares	100%
Comms People (Singapore) PTE Ltd	Singapore	Dormant	Sing \$1 Ord shares	100%
Glotel IT (Singapore) PTE Ltd	Singapore	Non trading	Sing \$1 Ord shares	100%
Comms People GmbH	Germany	Dormant	Dem 1 Ord shares	100%

*The shares in this subsidiary undertaking are owned directly by the Company.

Notes to the financial statements (continued)

11 Debtors

	The Group		The Company	
	31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Trade debtors	16,860	16,854	-	-
Amounts owed by Group undertakings	-	-	18,131	50
Other debtors	1,378	834	-	-
Prepayments and accrued income	9,540	6,430	-	-
	27,778	24,118	18,131	50

Other debtors includes £112,974 (1999: £65,000) in respect of deferred tax arising predominantly from short-term timing differences in the US subsidiary which are expected to reverse within one year, and loans to Directors and officers.

12 Creditors amounts falling due within one year

	The Group		The Company	
	31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Bank loans and overdrafts	1,327	722	-	-
Trade creditors	1,061	263	-	-
Other creditors	1,924	12,717	1,260	-
Taxation and social security	3,646	2,723	-	-
Accruals and deferred income	7,293	6,709	-	-
	15,251	23,134	1,260	-

The bank loans and overdrafts are secured by fixed and floating charges over the assets of certain subsidiary undertakings and by a composite cross-guarantee between members of the Group.

Included in other creditors for 1999 is £11,318,000 (2000: nil) representing amounts advanced to the Group under invoice discounting arrangements. These balances were secured by a charge over book debts totalling £15,636,000 and by a floating charge over substantially all of the assets of the US and Australian subsidiaries. Under invoice discounting arrangements the Group may borrow up to a maximum of between 80% and 85%, of trade debts approved by the finance providers. Interest is payable on advances at rates of between 1.5% and 2.0% above local base rates. Under the invoice discounting arrangements the Group bears all the risks associated with collecting the related trade debtors.

Included in other creditors at 31 March 1999 is £220,000 representing amounts due to the Comms People Funded Unapproved Retirement Benefits Scheme for Les Clark ('the FURB'). The loan bore interest at a rate of 10% per annum. This loan was repaid in full on 15 April 1999. On the following day the proceeds of the repayment were used by the FURB to subscribe for 578,947 Ordinary shares of 0.1 pence each in the Company.

13 Creditors amounts falling due after more than one year

	The Group		The Company	
	31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Other creditors				
Hire purchase contracts	25	183	-	-
Other loans	-	44	-	-
	25	227	-	-

14 Hire purchase contracts

Obligations under hire purchase contracts:

	The Group		The Company	
	31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Contracts which expire:				
Within one year	17	362	-	-
Between one and five years	27	202	-	-
	44	564	-	-
Finance charges allocated to future periods	(4)	(50)	-	-
	40	514	-	-

15 Provisions

	The Group		The Company	
	31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Other provisions	150	-	-	-

Other provisions relate to National Insurance contributions that are expected to become payable following the exercise of share options by employees from April 2002. The provision has been calculated using the Company's share price as at 31 March 2000. A 10% movement in the Company's share price would have an impact of £19,000 on the year end provision.

16 Operating lease commitments

The Group has committed to making the following payments during the next financial year in respect of operating leases:

	Land and Buildings		Other	
	31 March 2000 £'000	31 March 1999 £'000	31 March 2000 £'000	31 March 1999 £'000
Leases which expire:				
Within one year	366	343	3	21
Between one and five years	520	382	8	17
After five years	421	301	8	-
	1,307	1,026	19	38

17 Reconciliation of movements in shareholders' funds

	Year ended 31 March 2000 £'000	Year ended 31 March 1999 £'000
Profit for the financial year	3,797	2,193
Dividends	(1,260)	(960)
New share capital issued (Nominal value £630,000)*	16,315	-
Contribution to Employee Share Trust	(1,911)	-
Exchange differences	(62)	40
Net addition to shareholders' funds	16,879	1,273
Opening shareholders' funds	3,605	2,332
Closing shareholders' funds	20,484	3,605

*Net of share issue costs of £1,528,000.

Notes to the financial statements (continued)

18 Share capital

	31 March 2000 number	31 March 2000 £'000	31 March 1999 number	31 March 1999 £'000
Authorised				
Ordinary shares of 5 pence each	50,000,000	2,500	—	—
Ordinary shares of 0.1 pence each	—	—	50,000,000	50
Allotted issued and fully paid				
Ordinary shares of 5 pence each	37,877,761	1,894	—	—
Ordinary shares of 0.1 pence each	—	—	50,000,000	50

On 1 April 1999 the Company increased the authorised share capital of the Company from £50,000 to £62,500 by the creation of 12,500,000 ordinary shares of 0.1 pence each.

On 16 April 1999 the Company issued 578,947 ordinary shares of 0.1 pence each fully paid at a price of 38 pence per share (total consideration, £220,000).

On 28 April 1999 the Company issued 3 ordinary shares of 0.1 pence each fully paid for consideration of 38p per share.

On 11 May 1999 the Company increased the authorised share capital of the Company from £62,500 to £2,500,000 by the creation of 2,437,500,000 new ordinary shares of 0.1 pence each.

On 11 May 1999 the Company capitalised from the profit and loss account, the sum of £1,213,895 representing 1,213,894,800 ordinary shares of 0.1 pence each. These shares were fully paid and allotted in the proportion of 24 ordinary shares of 0.1 pence each for every one ordinary share of 0.1 pence each and rank in full for all dividends and other distributions and in all other respects *pari passu*.

On 11 May 1999 the Company consolidated the issued and unissued shares of 0.1 pence each into ordinary shares of 5 pence each.

On 19 May 1999 the Company issued 10,714,286 ordinary shares at 5 pence each fully paid for consideration of 140p per share (total consideration, £15,000,000).

On 19 May 1999 the Company issued 1,874,000 ordinary shares at 5 pence each fully paid to the Group's Employee Share Trust for consideration of 140p per share (total consideration, £2,623,600).

19 Share option and incentive plans

Options outstanding at 31 March 2000 under the Glotel Plc share option plans were as follows:

	Options granted	Number of options '000	Option price in pence	Earliest Exercisable from
SOP	1999	2,573	12.752p - 140p	1 April 2000
SRS	1999	352	160p - 354p	1 August 2002
	SOP		SRS	
	Number of options '000	Price range in pence	Number of options '000	Price range in pence
Options outstanding 1 April 1999*	—	—	—	—
Granted*	2,662	12.752p - 140p	388	160p - 354p
Exercised	—	—	—	—
Lapsed/cancelled	(89)	76p - 140p	(36)	160p - 354p
Options outstanding 31 March 2000	2,573	12.752p - 140p	352	160p - 354p

*Restated where applicable to take into consideration the bonus issue and share capital consolidation which took place on 11 May 1999.

19 Share option and incentive plans (continued)

Options are normally exercisable between the third and tenth anniversary of the date of the grant although options may be exercised earlier in certain circumstances.

The Glotel Company Share Option Plan ("SOP") was established in March 1999. The Glotel Company Savings Related Scheme ("SRS") was established in May 1999.

20 Reserves

	The Group and Company Share premium £'000	The Group Other reserves £'000	The Group Profit and loss £'000	The Company Profit and loss £'000
At 1 April 1999	-	100	3,455	-
Retained profit for the year			2,537	3,130
Capitalisation issue of shares			(1,214)	(1,214)
Contribution to Employee Share Trust			(1,911)	(1,911)
Exchange adjustments			(62)	
New share capital issued	17,213			
Share issue costs	(1,528)			
At 31 March 2000	15,685	100	2,805	5

Other reserves arise as a result of the merger accounting adopted for the Group reconstruction detailed in note 1, above.

21 Pensions

The Glotel Personal Pension Plan is open to all UK employees who have completed six months' service. The Group contributes the equivalent of 5% of an employee's pensionable salary into his/her personal pension plan, provided that he/she contributes at least the same amount. The pension cost, which represents the contributions payable by the Group, amounted to £95,000 for the year ended 31 March 2000 (1999: £109,000). Included in creditors due within one year is £7,000 (1999: £16,000) in respect of contributions due to such pension plans.

The Company's US subsidiary (Comms People, Inc) has a defined contribution Savings and Investment Plan. This plan covers substantially all the Group's US employees who meet minimum age and service requirements, and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the plan may be made at the discretion of Comms People, Inc.

The Group made no contributions to the plan during the two years ended 31 March 2000.

22 Financial instruments

The Groups financial instruments comprise borrowings, cash, overdrafts, hire purchase creditors, amounts drawn down under invoice discounting facilities and various items such as trade debtors, trade creditors that arise directly from its operations. It is and has been throughout the period under review, the Groups policy that no trading in financial instruments shall be undertaken.

The main purpose of these financial instruments is to raise finance for the Groups operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk.

Interest rate risk

The Group finances its operations through a mixture of retained profits, bank overdrafts and invoice discounting facilities. It is the Group's practice to utilise floating rate facilities. The interest rate exposures arising are not hedged.

Liquidity

The Group's policy is to ensure that it has adequate financial resources to enable it to finance its day to day operations, based on cash flow projections. The Group's working capital requirements are generally short term in nature. As a result the Group utilises short term overdraft and discounting facilities rather than longer term financing.

Notes to the financial statements (continued)

22 Financial instruments(continued)

Foreign Currency risk

The Group has significant overseas subsidiaries, the largest of which is Comms People Inc which operates in the USA. The revenues and expenses of this subsidiary are denominated in US dollars. The Group does not hedge its net investment in overseas subsidiaries. The Group's businesses' generally raise invoices and incur expenses in their local currencies. As a result they do not have any significant currency exposures to third parties. Where currency exposures arise, no hedges are taken out.

Other risk management activity

During the year an employee share trust was established to hedge the exposure to increases in the Glotel Plc share price arising from options granted under the Glotel Plc share option plans. At the year end the number of shares owned via the Employee Share Trust was 1,874,000.

Short term debtors and creditors

As permitted by FRS13, short term debtors and creditors have been excluded from all of the following disclosures, other than the currency exposures table below.

Interest rate risk profile of financial assets

	Year ended 31 March 2000 Floating rate £'000	Year ended 31 March 2000 Non interest bearing £'000	Year ended 31 March 2000 Total £'000
Sterling	2,200	1,130	3,330
US Dollars	449	318	767
EU currencies	—	102	102
Other currencies	—	123	123
	2,649	1,673	4,322

The floating rate financial assets represent deposits earning interest based on UK bank overnight deposit rates and the US overnight REPO rate. The non-interest bearing financial assets represent cash at bank.

Interest rate risk profile of financial liabilities

	Year ended 31 March 2000 Floating rate £'000	Year ended 31 March 2000 Fixed rate £'000	Year ended 31 March 2000 Total £'000
Sterling	(1,415)	—	(1,415)
US Dollars	—	—	—
EU currencies	—	(5)	(5)
Other currencies	—	(35)	(35)
	(1,415)	(40)	(1,455)

Financial liabilities comprise of bank overdrafts, obligations under hire purchase contracts and other loans. The floating rate financial liabilities bear interest at rates based on UK Base Rates. At 31 March 2000, the fixed rate financial liabilities bear a weighted average interest rate of 7.6%. At 31 March 2000, the weighted average period outstanding for the fixed rate financial liabilities was 1.5 years.

22 Financial instruments (continued)

Currency exposures

Exposures that give rise to net currency gains and losses in the profit and loss account are shown below. These comprise monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit involved.

	Net foreign currency monetary assets/(liabilities)			
	Year ended 31 March 2000	Year ended 31 March 2000	Year ended 31 March 2000	Year ended 31 March 2000
March-00	Sterling £'000	US Dollars £'000	EU Currencies £'000	Total £'000
Functional currency of Group operation:				
Sterling	–	677	298	975
US Dollars	(318)	–	–	(318)
EU currencies	(388)	–	–	(388)
Total	(706)	677	298	269

Maturity of financial liabilities

The maturity profile of the financial liabilities at 31 March 2000 was as follows:

	Debt £'000	Finance leases £'000	Total £'000
Within 1 year, or on demand	(1,415)	(15)	(1,430)
Between 1 and 2 years	–	(25)	(25)
	(1,415)	(40)	(1,455)

Borrowing facilities

The Group has floating rate undrawn committed invoice discounting facilities available at 31 March 2000. These facilities expire within one year and total £11,514,000.

Fair values of financial instruments

As at 31 March 2000 there were no material differences between the fair values and the book values of the Group's financial assets and liabilities.