3560743

Group Information

Head Office

Compel Group PLC
Millennium Place,
2 Swiftfields,
Welwyn Garden City,
Hertfordshire AL7 1HP

Telephone: 01707 288000
Facsimile: 01707 288001

www.compel.co.uk

Operational Centres

Scotland	- Aberdeen Glasgow Livingston
North East	- Gateshead
North West	- Warrington
Midlands	- Birmingham
South	- Camberley Chelmsford Hatfield Welwyn Garden City
London	- City Wembley

Group

COMPEL

Quality IT services for major users

Businesses

COMPEL SCOPE

IT Consultancy

COMPEL SOURCE

Outsourcing and managed services for networked computing

COMPEL SOLVE

Solutions and technology integration services for enterprise computing

HAMILTON RENTALS

IT rental services

International

GLOBALSERVE

Worldwide IT management services

Company Information

Directors

Neville Davis
Chairman and Chief Executive

Ronald Clark**
Deputy Chairman

Andrew J Lee
Finance Director

William A Joss
Business Development Director

David P Frankling
Managing Director - Compelsolve, Hamilton Rentals

Mark I Howling
Managing Director - Compelsource

Sir Michael Bett*

Peter A Moore*

* Independent Non-Executive
** Senior Independent Non-Executive

Secretary

Andrew J Lee

Registered Office

Millennium Place,
2 Swiftfields,
Welwyn Garden City,
Hertfordshire AL7 1HP

Registered Number

2545945

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers

Lloyds Bank Plc
Corporate & Institutional Banking
PO Box 787
St Georges House
6-8 Eastcheap
London EC3M 1LL

Solicitors

Laytons
Carmelite
50 Victoria Embankment
London EC4Y 0LS

Stockbrokers and Financial Advisors

SG Securities (London) Ltd
Exchange House
Primrose Street
Broadgate
London EC2A 2DD

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 3UH

Contents

Chairman's Statement

I am pleased to report strong results for Compel for the year ended 30 June 1999. We have, once again, significantly increased our revenues, profits and earnings per share to record levels.

Organic growth throughout the Group has been good, with all businesses performing well. The nature of our relationships with our existing customers has become not only more extensive, but also more services led and all-embracing. We have also won some important new customers.

There was one major acquisition during the year; that of Info'Products UK PLC. Our progress with this business has been good and in line with our expectations at the time of the transaction. This acquisition has been earnings enhancing and has materially strengthened the Group.

Our business is particularly reliant upon its staff. Once again, the employees of the Group have performed magnificently throughout the year and I would like to thank them for and congratulate them on their achievements.

Compel originally floated on the London Stock Exchange five years ago, in September 1994; this is an appropriate point to reflect on what we have achieved since then. The Group has grown from being an important participant in its sector to being one of the clear market leaders, and from an organisation employing 200 people to one employing over 1,300.

Financially, our performance can be summarised as follows:

	Year ended 30 June 1994 £'000	**Year ended 30 June 1999 £'000**	Compound Annual Growth %
Turnover	54,542	**293,750**	40
Profit before tax	2,062	**12,679**	44
Earnings per share	10.0p	**36.2p**	29

Whilst the markets we address have grown over these five years, much of our success has come from increasing our share of these markets and from very effective management of our businesses. We are proud of what we have achieved.

Our mission is unchanged; we aim to be the leading provider of quality IT services to major users. Our strategy to achieve this is to develop a group of customer focused businesses, providing a full range of comprehensive, flexible and integrated services to the highest standard.

In general, our markets remain robust. However, we have seen some slow down in expenditure as a result of the impending Year 2000 date change and we envisage that this trend will continue through to the end of December 1999. Beyond the millennium, we believe our prospects are excellent. We anticipate a swift increase in expenditure levels as organisations seek to fulfil pent up demand, and particularly as they orient their activities towards new initiatives which will proactively support their businesses, rather than the largely remedial Year 2000 related activities which have been their focus of late.

More strategically, we anticipate long term growth in IT expenditure, as large organisations begin to use IT not just to make themselves more efficient, but to transform their activities. As they do so, these organisations will focus their own IT professionals on ensuring IT is an integral part of their businesses, whilst making greater use of the services provided by external specialists. Compel is very well positioned to exploit these market trends.

Our businesses are strong and the Board is positive about the prospects for the Group.

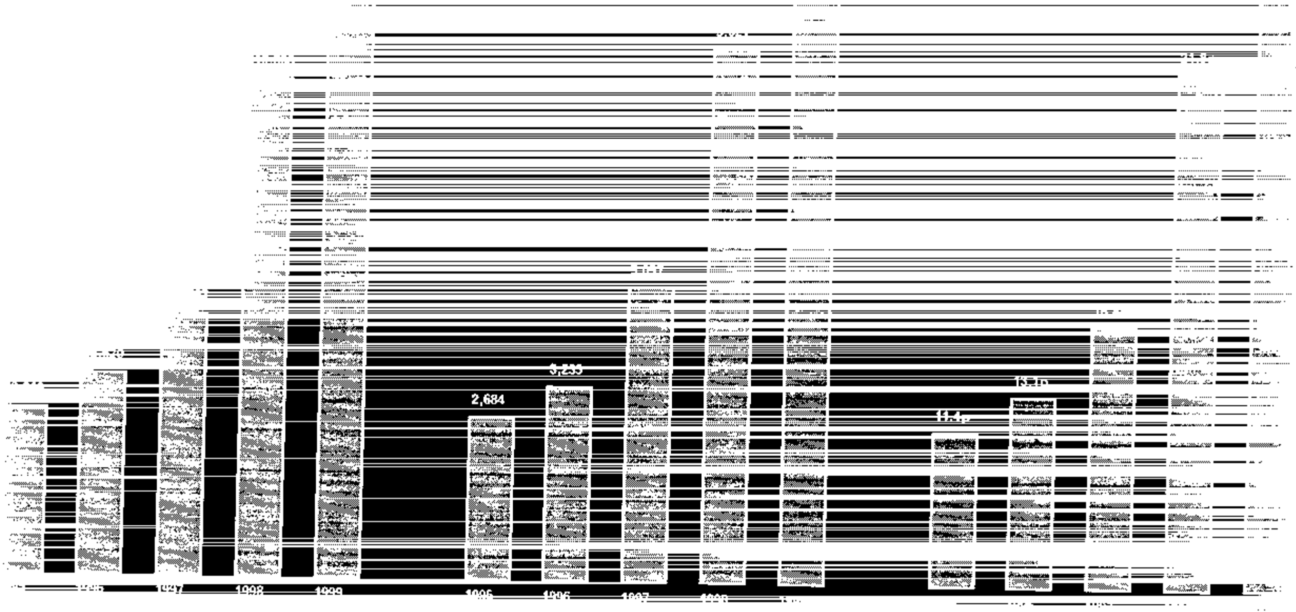
Neville Davis

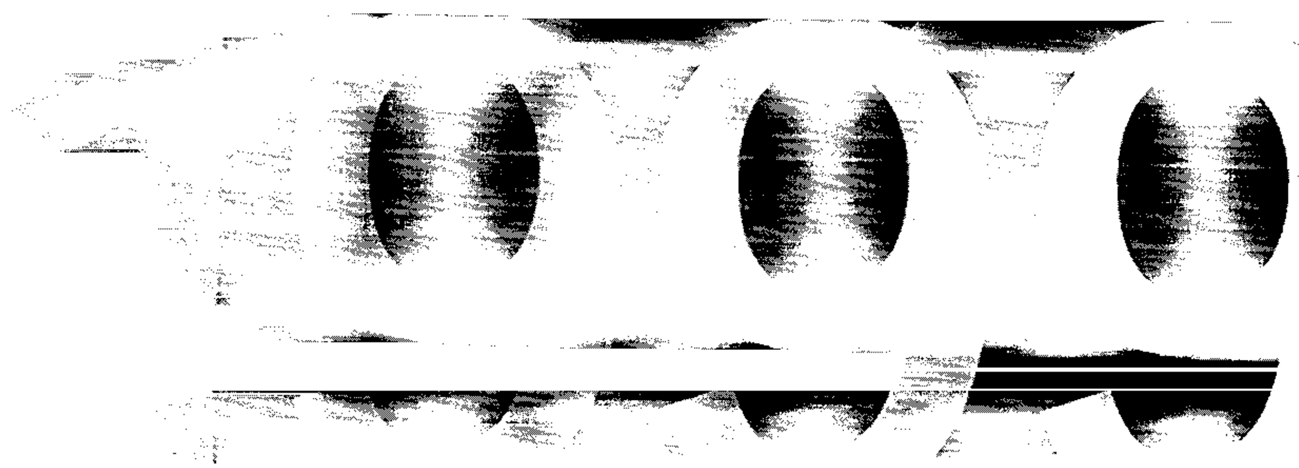
Neville Davis
Chairman

14 September 1999

Financial Highlights

[illegible]	[illegible]	[illegible]
Operating profit	13,029	[illegible]
Profit before taxation	[illegible]	[illegible]
Earnings per share	36.2p	[illegible]





Operating Review

For the year ended 30 June 1999

Compel is one of the UK's leading IT services organisations; we provide a range of integrated services to major users with whom we develop long term relationships.

The Group has four businesses: Compelscope, Compelsource, Compelsolve and Hamilton Rentals. These businesses, which are discussed in detail on the following pages, work together to meet customer needs.

Culture

All parts of the Group share certain key philosophies and approaches:

Customer Orientation

We are a customer centric organisation, placing the requirements of our customers right at the heart of our business and developing long term relationships with them to meet their evolving needs. Our focus on major end users enhances our ability to deliver a cost effective, yet tailored service to each customer.

Quality

We are seriously committed to real quality – it is our key commercial differentiator. We define quality as "exceeding customer expectations" and we deliver it through:

Procedural Quality – This encompasses our methodology and systems. All parts of the Group are certified to ISO 9001.

Operational Quality – This is the tangible output of our activities and is comprehensively measured against service level agreements. We seek to progressively improve the agreed service levels and consistently exceed these.

Personal Quality – This relates to the approach and actions of each of our employees. We ensure that everyone understands their individual contribution to what we achieve for our customers and the impact their quality has on this.

Employees

Our employees are our only unique assets – our success derives from their collective actions. We place a very high priority on ensuring that our employees achieve satisfaction from their work, that they feel there is material opportunity to develop their careers within the Group and that they earn appropriate financial reward for their contribution. We believe in comprehensively training our people to enable them to reach their full potential; our "Investor in People" accreditation confirms this commitment.

Acquisition

On 8 January 1999 we completed the acquisition of Info'Products UK PLC, one of the UK's leading providers of managed desktop computer services to major users and a substantial organisation with a range of blue chip customers.

The business was established in the 1980s and performed successfully and profitably through to the end of 1996. Thereafter it had been loss making, primarily as a result of management failures. Info'Products' business fits well with that of Compel and the acquisition has brought:

- A number of new corporate customers, who have broadened and strengthened our customer base.
- Many skilled employees, including technical, operational and sales staff.
- Further facilities, including a 76,000 sq ft leased warehouse and configuration centre, which provides scope for the Group's future expansion.
- Increased critical mass. Both customers and manufacturers within the sector are becoming more oriented towards larger suppliers. The increase in revenues, employees and overall size resulting from this acquisition, has strengthened the Group's position as one of the leading organisations in our market.

Operating Review

In line with our plans, we have materially reduced the cost base of Info'Products and integrated it into the remainder of the Group. We are now focusing on improving the margins of the business, primarily by increasing the level of services provided. We expect that its contribution will pass the break-even point and become positive during the second half of the current financial year.

In anticipation of the necessary restructuring costs and the unavoidable ongoing losses of this business, the consideration paid for Info'Products was materially less than its net assets. Thus, in its early stages, this acquisition has been and, we believe, will remain earnings enhancing as a result of the release to the profit and loss account of this excess.

On 4 June we announced that, in line with Compel's strategic focus on the UK market, we had sold Info'Products' small Irish subsidiary for a cash consideration of approximately IR£1.4 million.

The response to the acquisition from the customers and employees of Info'Products has been overwhelmingly supportive; we remain very positive about it.

Development

We have developed the Group in a number of key areas, including:

Information Technology Systems

During the period, we installed major new IT systems throughout the Group. This was a substantial investment, both financially and in terms of the activities of our employees and we now have a very strong technology base to underpin the future development of the business. We are also investing materially in our own e-business capability; this now forms a fundamental part of our customer interface and operational activity.

Business Positioning

We have focused the development of the Group into four key business areas and have completed a rebranding exercise to appropriately reflect our strategic direction.

We have established a new Consultancy business, Compelscope, which encompasses elements from all parts of the Group. We have integrated the vast majority of the other activities of Compel PLC, Compel Scotland and Info'Products into Compelsource, with minor elements being integrated into Compelsolve (formerly Hamilton Systems). As Hamilton Rentals is the UK market leader and has extremely strong brand recognition, we have not changed its name.

COMPEL SCOPE

Compelscope provides IT consultancy.

This business is focused upon the provision of advice on the use of IT to meet business needs and on the design and implementation of IT.

As most large organisations use industry standard information technology for increasingly sophisticated and important purposes, so the need for appropriate consultancy advice and services has grown.

Customers typically want to work with organisations which have practical experience of the relevant technology and have a demonstrable track record of delivering sound advice and, where appropriate, of implementing this advice. Compelscope comprehensively fulfils these requirements.

The business has had a very successful year, materially growing both the overall volume of its activities and the sophistication and complexity of the tasks it has undertaken. One of our flagship projects is the design and implementation, for a major organisation, of the migration of its entire IT communications infrastructure from a number of disparate technologies to Microsoft Exchange. This project is one of the largest of its nature ever undertaken.

The prospects in this area are excellent. Demand for IT consultancy continues to increase and, as our expertise, experience and critical mass grows, so we become an ever more attractive choice to meet this demand.

Operating Review

COMPEL SOURCE

Compelsource provides outsourcing and managed services for networked computing.

At the heart of this business is the provision of an overall outsourced integrated managed service; this typically encompasses all elements of the ongoing design, supply, management, support and refresh of the very sophisticated networked computing environments which exist in most large organisations.

Expenditure on networked computing has continued to increase and there has been an ongoing strengthening in the acceptance, in our target markets, of the concept that an outsourced managed service is the optimal method to manage this area of technology.

Compelsource has performed well this year. We have successfully increased the size of our customer base and we are doing more for each of these customers. We have materially grown the volume of services we provide and, most importantly, we have increasingly taken all-embracing responsibility for overall service. The nature of our contracts with customers has continued to both broaden and lengthen.

Prospects are very good. We believe that large organisations will further increase their expenditure in this area of technology as its capacity to deliver real strategic benefits to their businesses continues to grow. As they do so, we also anticipate that they will increasingly outsource some or, more commonly, all of these activities to specialist service providers. Compelsource is extremely well placed to take advantage of these market trends.

COMPEL SOLVE

Compelsolve provides solutions and technology integration services for enterprise computing.

The core of this activity is the provision of comprehensive technology integration service to large organisations in environments where they are implementing, refreshing or installing major new business systems. We work with the world's leading developers of software and systems to provide our customers with a complete solution, encompassing design, specification, installation and all elements of ongoing support.

Market demands for services of this nature have been strong over the period and there has been a further increase in the trend for customers to rely on specialist service providers, such as Compelsolve, in this area.

The last year has been a successful one for Compelsolve. We have continued to develop our relationships with our existing customers, especially by providing more services to them, and we have won some important new ones. In addition to strengthening our relationships with our existing key manufacturer partners, i.e. Hewlett Packard, Compaq, Microsoft and SAP, we have established and developed new and strategically important relationships with both Sun and Oracle.

The prospects for this business are very strong. Current market dynamics are driving major organisations to invest in substantial new IT systems. This is particularly the case in the arena of e-commerce, which is transforming many businesses, but also applies to a whole range of areas, such as extended ERP, business intelligence and customer relationship management. These large organisations are increasingly deploying their own IT professionals to work proactively within their businesses, leaving the implementation of such major initiatives to external specialist organisations. Compelsolve has precisely the right expertise, experience and substance to be an obvious candidate in such situations.

Operating Review

HAMILTON RENTALS

Hamilton Rentals provides IT rental services.

Hamilton Rentals is, by a material measure, the UK's leading computer rental business. We provide full service, short term rental in all major areas of IT.

Demand for this service arises from a whole range of customer requirements, including product evaluation, projects, specific short term needs (such as exhibitions, conferences, training) and urgent product requirements. As well as growth linked to the increasing use of technology, this market can also be expanded by successfully demonstrating the specific benefits of using rental.

As in the rest of the Group, Hamilton Rentals has experienced a very strong period, successfully growing its business from existing customers and developing a number of key new customers. We have also strengthened our product portfolio to a point where it now encompasses all major elements of IT. In September 1998, we established a new dedicated, "state of the art" PC rental facility in North London, which has proved to be very effective.

Hamilton Rentals' position as the clear market leader in this sector is particularly important, as we tend to be the first choice of many companies for rental requirements and the breadth and depth of our offering means that we can almost always meet their needs.

As the overall use of IT within large organisations continues to grow, so will the inherent demand for rental services. We believe we are extremely well positioned to benefit from this demand.

GLOBALSERVE

GlobalServe provides worldwide IT management services.

Compel focuses exclusively on providing service within the UK. It meets the overseas needs of its multinational customers through GlobalServe.

GlobalServe Computer Services Limited is the corporate core of GlobalServe. It is owned equally by Compel, CompuCom (USA), Compugen (Canada) and Infopoint (France). Neville Davis of Compel is Chairman of the Board of GlobalServe.

At the heart of GlobalServe's approach is an extensive web-enabled IT capability, complemented by high calibre, experienced, international employees. We have the capacity to arrange service in all parts of the world and this is provided through more than fifty members, including Compel, the sole UK member.

Only a relatively small number of multinationals have so far implemented an international approach, although this is something which is being considered by many such companies. We believe this approach will become more commonplace and that GlobalServe is an ideal route for multinationals to achieve their objectives in this area.

Conclusion

Compel has now firmly established itself as one of the UK's leading IT service companies. The prospects for the markets we address are very good, as large organisations see increasingly strategic benefits from the use of IT and orient towards the use of external specialists for the provision of overall service in this area. Compel's strength and positioning give us great confidence that we will be able to continue to increase our share of this growing market.

Financial Review

For the year ended 30 June 1999

Results

Once again, the Group has significantly increased its turnover, profits and earnings per share. Turnover rose 40% to £293.8m, profit before tax increased by 41% to £12.7m, and earnings grew by 66% to 36.2p per share. Gross margin on continuing operations excluding acquisitions improved from 18.8% to 20.3% as a result of the increasing proportion of services sold.

The acquisition of loss-making Info'Products, for substantially less than asset value, gave rise to negative goodwill on consolidation of £16.3m after acquisition costs. In accordance with FRS 10, the new accounting standard for goodwill, this amount has been capitalised and released to the profit and loss account as the acquired non-monetary assets are realised. This results in a credit to the profit and loss account for the period of £7.3m, which is included in administrative expenses relating to the acquisition.

The cost base of Info'Products was substantially reduced following acquisition and good progress has been made towards restoring the business to profitability. Restructuring costs of £3.3m were incurred, principally related to reductions in headcount and provisions for property made vacant by the reorganisation of the business. Excluding these one-off costs and the negative goodwill release, the underlying operating loss for the period was £2.5m, which compares very favourably with the operating loss of £20.5m for the 53 week period prior to acquisition.

The Group's effective tax rate for the year has fallen to 16% due to the release of non-taxable goodwill, although the underlying rate of taxation is unchanged.

The Board is proposing a final dividend of 4.6p per share, bringing the total for the year to 7.0p per share, an increase of 11%. Dividends are covered 1.6 times by earnings before release of negative goodwill.

Balance Sheet and Cash Flow

The book value of tangible fixed assets increased from £12.0m to £17.2m over the year, £3.8m being acquired with Info'Products. Capital expenditure during the year of £10.7m included £3.9m for new computer systems and equipment and £5.9m on new trade assets for the rental pool. The introduction of new IT systems enabled Hamilton Rentals to improve asset utilisation, increasing revenues with a proportionally smaller investment in new equipment.

The acquisition of Info'Products was financed by a £3m share placing, subscription shares of £2m and a loan of £3m from the vendor, and an additional bank loan of £8m. These proceeds were used to repay £10m of indebtedness assumed with the business and to fund reorganisation costs.

At 30 June 1999 the Group had net debt of £10.9m, comprising £15.1m of bank and other loans (of which £1.7m was due for repayment within one year), loan notes of £2.2m backed by treasury deposits, and cash balances of £4.2m. The net gearing ratio at the year end was 41%, reducing to 31% if based on tangible net assets excluding negative goodwill.

Our focus on working capital management, particularly in Info'Products following its acquisition, resulted in strong cash flow from operations. This increased by 83% to £15.5m, which represents 5.3% of turnover (1998: 4.0%). Cash balances at the year end increased by £5.8m compared to 1998.

The ratio of current assets to current liabilities increased from 1.18 to 1.56 as a result of the improved working capital position.

The Board of Directors

Executive Directors

Neville Davis BA, FCA, (Age 44)
Chairman and Chief Executive
Neville Davis is a graduate from the University of Kent and qualified as a chartered accountant with Deloitte, Haskins & Sells in London. He joined Compel in 1980 and was appointed Managing Director in 1983. He led a management buy-out in 1987 and has been Chairman and Chief Executive since then.

Andrew Julian Lee BA, FCMA, (Aged 42)
Finance Director and Company Secretary
Andrew Lee is a graduate in Economics from Nottingham University. He joined the Group as an accountant in 1980, subsequently qualifying with the Chartered Institute of Management Accountants. He became a director of Compel PLC in 1990 and was appointed to the Group Board in 1994.

William Alexander Joss BA, (Aged 45)
Business Development Director
William Joss is a graduate in English and Law from the University of London. He has worked in the computer industry since 1978 and has held various sales and senior management positions in information technology companies. He joined Compel PLC in 1992 as Sales Director and was appointed to the Group Board in 1994. He was appointed Business Development Director in 1998.

David Paul Frankling, (Age 46)
Managing Director – Compelsolve, Hamilton Rentals
David Frankling has worked in the computer industry since 1970 and has held board positions for the past 14 years. He joined Hamilton Rentals plc in 1990 as Sales and Marketing Director and became Managing Director in 1995. He was appointed to the Board in 1997 following the acquisition of the Hamilton Rentals group.

Mark Ian Howling BSc, (Age 38)
Managing Director – Compelsource
Mark Howling is a graduate in Civil Engineering from Nottingham University. Between 1984 and 1988 he was Business Systems Manager for Mars Group Services. He then worked for 3 years for Coopers & Lybrand in an IT consultancy management role. He joined GPT in 1991 and became a main board director in 1996 managing its Intelligent Networks Division. He joined the Board in March 1998 on taking up the position of Managing Director of Compelsource. He also has main board responsibility for Compelscope, the Group's IT consultancy business.

The Board of Directors

Non-Executive Directors

Ronald Clark CEng, MIMechE, (Age 62)
Deputy Chairman
Ronald Clark joined Compel as a non-executive director in 1989 and was appointed Deputy Chairman in 1990. He is the senior non-executive director and chairs the audit, nomination and remuneration committees. He qualified as an engineer before obtaining senior management experience with GEC between 1963 and 1976. From 1976 to 1980 he was Chief Executive of Plessey International Electronics Components Limited and subsequently, until 1988, Chairman and Chief Executive of BICC Technologies Limited and a main board director of BICC Plc. He has held a number of posts as both Chairman and non-executive director of quoted and unquoted companies. He also acts as an adviser for various venture capital initiatives.

Sir Michael Bett CBE, MA (Age 64)

Sir Michael was appointed as a non-executive director in 1993 and is a member of the audit, nomination and remuneration committees. His background is in personnel and general management. He was Personnel Director of GEC between 1972 and 1977, and subsequently Director of Personnel at the BBC for 4 years. He joined the main board of British Telecommunications Plc in 1981 as Personnel Director and was Managing Director of BT(UK) from 1985 to 1991; he was then Deputy Chairman until 1994. He has also served on a number of public bodies, including pay review boards and committees of enquiry. He is currently First Civil Service Commissioner.

Peter Augustine Moore (Age 62)

Peter Moore joined the Board in 1997 and is a member of the audit and remuneration committees. His experience is in marketing and general management. He was for many years a senior manager and director of Telephone Rentals Plc, becoming Group Managing Director in 1984. Subsequently, from 1990 to 1994, he was a main board director of Hong Kong Telecommunications Group. He was non-executive Chairman of Hamilton Rentals Group Limited from 1994 to 1997. He is currently non-executive Chairman and director of a number of companies in the telecommunications and consultancy markets.

Report of the Directors

For the year ended 30 June 1999

The audited consolidated accounts of the Company and its subsidiaries for the year ended 30 June 1999 are set out on pages 18 to 38.

Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of both the Company and Group and of the profit or loss for that period. In preparing those accounts, 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and Group and to prevent and detect fraud and other irregularities.

Principal Activity and Business Review

The principal activity of the Group is the provision of IT services to major users. A review of the Group's activities during the year is given in the Chairman's Statement and the Operating and Financial Reviews.

Dividends

The directors recommend payment of a final dividend of 4.6 pence per share which, together with the interim dividend of 2.4 pence per share already paid, makes a total dividend of 7.0 pence per share for the year (1998: 6.3p).

Directors and their Interests

The directors of the Company who served during the year are listed on pages 9 and 10. In accordance with the Articles of Association, N Davis and R Clark retire by rotation and, being eligible, offer themselves for re-election. Details of the directors' service contracts are contained in the Remuneration Report.

The interests of the directors in the share capital of the Company, including share options, are set out in note 5 to the accounts.

Substantial Interests

At 31 August 1999 the Company had been notified of the following interests (excluding directors interests) which amounted to 3% or more of the issued share capital of the Company:

Shareholder	No of Shares	Percentage Holding
NatWest Group	2,789,948	9.24%
Standard Life	2,048,869	6.79%
Hill Samuel Asset Management	1,943,652	6.44%
3i Group PLC	1,852,377	6.14%
CGU plc	1,260,000	4.17%
Lloyds TSB Group plc	1,142,217	3.78%
Legal & General	1,135,771	3.76%
General Accident	1,060,000	3.51%

Report of the Directors

Authority to Purchase the Company's Own Shares

At 30 June 1999, the Company had authority under a shareholder's resolution of 27 October 1998, to purchase by market purchase up to 1,418,215 of the Company's ordinary shares at prices ranging from 5p per share to 105% of the average of the middle market quotation for the 10 business days preceding the day of purchase. This authority expires on 28 October 1999 at the Annual General Meeting, when a resolution will be proposed to renew the authority. The directors have no present intention to use the existing or proposed authority to purchase the Company's own shares and would only intend to exercise such authority if satisfied that to do so would be in the best interest of the Company.

Employees

It is the Group's policy to encourage the employment, training and career development of disabled persons. If employees become disabled every effort will be made to enable them to continue in employment.

Directors and managers provide all employees with information on matters affecting them as employees. Staff are briefed at regular meetings and are encouraged to share their views through employee surveys. The Group actively promotes a staff suggestion scheme as part of its Quality Through People programme.

Employees are encouraged to invest in Compel Group PLC by participating in share option schemes. The Board believes that share options have an important role to play in attracting, motivating and retaining employees at all levels and in aligning employees interests with those of shareholders.

Payments Policy and Practice

The Group values its relationships with suppliers and operates a vendor assessment scheme to establish mutual responsibilities as part of its ISO 9001 quality procedures. It is the Group's policy to negotiate terms and ensure suppliers are aware of payment terms before business is transacted. Wherever possible suppliers are notified of amounts in dispute before payment is due.

The Company had trade creditors of £50,000 at 30 June 1999 and made purchases on trade credit during the year of £1,326,000 (including VAT) resulting in a payment period of 14 days.

Year 2000 issues

Many computer systems store or process dates using only the last two digits of the year, and thus require replacement or modification to accommodate the Year 2000 in order to avoid malfunction. This is a complex and pervasive matter, and thus a Year 2000 Committee was established in 1997 to identify the issues relating to all the activities of the Group, and initiate action plans. The Board receives regular reports on progress.

There are three main elements in the Group's Year 2000 compliance activity:

- assurance that internal business systems will correctly process future dates;
- liaison with trading partners, suppliers and customers to ensure that supply chains continue to operate without disruption;
- establishment of clear contractual responsibilities for systems and services provided by the Group.

Report of the Directors

The Group has reviewed its internal business systems and developed a programme for replacement of non-compliant systems. The cost of replacement has been largely offset by the Group's continuing substantial investment in new systems to meet its business objectives. The remaining directly attributable expenditure to achieve Year 2000 readiness is therefore approximately £230,000. This is mainly capital expenditure to replace existing computer equipment that cannot be guaranteed as Year 2000 compliant.

General Information

Charitable donations totalling £7,151 were made in the financial year (1998: £4,950).

No political donations were made by the Group in the financial year (1998: £Nil).

Annual General Meeting

Shareholders are referred to the Notice of Annual General Meeting on page 39.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

By order of the Board

AJ Lee
Secretary
14 September 1999

Registered Office:
Millennium Place, 2 Swiftfields,
Welwyn Garden City, Hertfordshire AL7 1HP

Corporate Governance

Statement of Compliance

The Company has complied throughout the financial year with the provisions set out in Section 1 of the Combined Code.

The Board

The Board is responsible for strategy, performance appraisal, approval of major capital projects and the framework of internal controls. It meets regularly every two months, and at other times as required. The information which the Board receives to enable it to discharge its duties includes written reports from the executive directors, monthly management accounts, operational performance indicators, market research and other industry information. There is a procedure for the directors to take independent advice if necessary, at the Company's expense.

The Board comprises five executive directors and three independent non-executive directors. Neville Davis, a founder director of the business, combines the roles of Chairman and Chief Executive. The Board considers that an entrepreneurial, people-based business operating in a dynamic market place is best served by having one individual provide a single focus of leadership. The Board also believes that any concentration of power in this individual is more than balanced by the strong non-executive representation on the Board - headed by Ronald Clark, the Deputy Chairman - and by the appointment of managing directors for each operating subsidiary which creates an appropriate separation of executive responsibility.

Board Committees

The Board has delegated specific authority to a number of committees of which the following are the most significant:

The Remuneration Committee comprises the three non-executive directors and meets as necessary. It determines the individual remuneration packages for each of the executive directors and makes recommendations to the Board on the framework of executive remuneration and its cost. The terms of reference of the committee also include approving grants of options under the executive share option scheme and savings related share option scheme.

The Audit Committee, which is chaired by Ronald Clark, comprises the three non-executive directors and meets three times a year. The committee provides a regular line of communication between the Board and the Group's auditors. Meetings are attended, by invitation, by the Finance Director and other executives. The Audit Committee reviews the annual and interim accounts before submission for approval by the Board. Its terms of reference also include review and consideration of the Group's accounting policies, the scope and results of the external audit and management control issues.

The Nominations Committee meets as necessary. Its members are Ronald Clark (Chairman), Neville Davis and Sir Michael Bett. The committee assesses the suitability of persons for appointment as directors and makes recommendations to the Board for its approval.

Relations with shareholders

The Chairman, Finance Director and Business Development Director maintain regular dialogue with institutional investors and analysts. Formal presentations and meetings are held following the announcement of results and at other times as required. All shareholders are welcome to attend the Annual General Meeting, and to visit the Company's website, where financial results and further information on the Group's activities are published.

Corporate Governance

Internal Financial Controls

The Board is responsible for ensuring that the Group maintains a system of internal financial control, including suitable monitoring procedures. Internal financial control systems are designed to meet the particular needs of the group concerned and the risks to which it is exposed, and by their nature can provide reasonable, but not absolute, assurance against material mis-statement or loss. The key features of the Group's system of internal financial control are as follows:

- There is a formal schedule of matters specifically reserved for decision by the Board. Each executive director has been given responsibility for specific aspects of the Group's affairs.
- The Group operates a comprehensive annual budgeting system against which monthly performance is reported and monitored. Business managers report monthly on business performance to individual executive directors with line responsibility, and to management committees and the boards of operating subsidiaries.
- Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond specific levels, detailed written proposals have to be submitted to the board.
- The Audit Committee monitors, through reports to it by the finance department and by the external auditors, the controls which are in force and any perceived gaps in the control environment.

The Board and the Audit Committee reviewed the system of internal financial control during the year. The Board is taking advice from the Auditors on the application of the Turnbull Committee's proposals and will carry out a review of all internal controls during the present financial year.

Going Concern

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

Remuneration Report

The Remuneration Committee

The members of the committee during the year were:

Ronald Clark (Chairman)
Sir Michael Bett CBE
Peter Moore

Remuneration Policy

Executive remuneration packages are designed to attract, motivate and retain executive directors of the calibre required to achieve the Group's objectives and to align their interests with those of shareholders through significant and appropriate performance related elements. In establishing the level of remuneration for each director, the Remuneration Committee considers packages offered by comparable companies and seeks external advice as necessary.

Directors' Remuneration

The components of the remuneration package are outlined below. Details of the remuneration for each director are shown in note 5 to the accounts.

Basic Salary

Basic salaries are reviewed annually by the Remuneration Committee and when an individual changes position or responsibility.

Benefits

The principal benefits comprise a fully expensed car or car allowance, and private healthcare.

Performance Related Bonuses

Executive directors are eligible for an annual bonus, based on growth in earnings per share and achievement of specific performance objectives relevant to each director's executive responsibilities. In each case a significant proportion of the maximum bonus is dependent on growth in earnings per share.

The Remuneration Committee sets performance objectives and targets for earnings per share growth for each financial year.

Pension Contributions

Contributions are made to a defined contribution pension scheme or to the director's nominated personal pension plan. No element of remuneration other than basic salary is pensionable. Non-executive directors are ineligible to join the Company's pension scheme.

Share Option Schemes

The Company operates a savings related option scheme, and an executive share option scheme. Both schemes are open to all employees. Other than grants under the savings related scheme, no director was granted or exercised any share options during the year.

Fees

Non-executive directors fees are determined by the Board as a whole within the limits stipulated in the Articles of Association. Individual directors are not involved in any discussions or decision about their own remuneration.

Service Contracts

The executive directors are employed under service contracts with entitlement to a rolling period of notice of one year, other than Neville Davis who has a rolling eighteen month contract, which the Board believes is in the best interest of the Group. There are no provisions for predetermined compensation on termination.

The non-executive directors do not have service contracts.

Report of the Auditors

To the Members of Compel Group PLC

We have audited the accounts on pages 18 to 38.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 11 the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 14 and 15 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We draw attention to the fact that the directors' review of the system of internal control has been undertaken before formal guidance has been issued as to the scope of such a review and the procedures to be undertaken and may not, therefore, constitute a review for the purpose of the Combined Code as ultimately interpreted.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 June 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

14 September 1999

Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts.

Basis of Preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The cash flow comparatives have been re-stated in order to reflect the re-classificiation of treasury deposits as current asset investments.

Basis of Consolidation

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Intra-Group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

In accordance with Section 230 of the Companies Act 1985, a separate profit and loss account of Compel Group PLC is not presented. Profit after taxation of £2,476,000, has been dealt with in the individual company accounts.

Intangible Assets - Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account over the periods expected to benefit.

Goodwill arising on acquisitions in the year ended 30 June 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previous acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Turnover

Turnover represents amounts, excluding value added tax, derived from the provision of goods and services to customers during the year.

Deferred Income

Income on rental, maintenance and service contracts is recognised on a straight line basis over the life of the contract. Unrecognised income is shown separately on the balance sheet as deferred income. The directors believe that this provides a more informative presentation of the Group's financial position, given the significance and nature of the income deferred.

Accounting Policies

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at original cost less depreciation. Depreciation is charged on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset in equal instalments over its estimated useful economic life as follows:

	Annual Rate
Rental equipment	33 - 50% or more if prudent
Office equipment, fixtures and fittings	10 - 50%
Computer systems and equipment	20 - 50%
Motor vehicles	33% or life of the lease

Costs relating to capital work in progress are accumulated during the project. On completion and commissioning of the asset, depreciation is charged in accordance with the above policy.

Fixed Asset Investments

Fixed asset investments are held at cost less provision for any permanent diminution in value.

Leases

Where a Group company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is the shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account under the item 'interest payable and similar charges', and the capital element which reduces the outstanding obligation for future instalments included within creditors.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension Costs

Pension costs represent the contributions payable for the accounting period to defined contribution pension schemes and employees' personal pension plans.

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value represents the estimated proceeds from the sale or use of items of stock less all further costs directly relating to their disposal.

Taxation

The charge for taxation is based on profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise. Deferred tax assets have been recognised when they are expected to be recovered within one year without replacement.

Consolidated Profit and Loss Account

For the year ended 30 June 1999

	Note	1999 Continuing Operations £'000	Acquisitions £'000	Total £'000	1998 Total £'000
Turnover	1	236,773	56,977	293,750	210,003
Cost of sales		(188,693)	(51,213)	(239,906)	(170,539)
Gross profit		48,080	5,764	53,844	39,464
Distribution costs		(5,998)	(799)	(6,797)	(5,672)
Administrative expenses	3	(29,708)	(3,510)	(33,218)	(24,050)
Total operating costs		(35,706)	(4,309)	(40,015)	(29,722)
Operating profit		12,374	1,455	13,829	9,742
Interest receivable and similar income				137	149
Interest payable and similar charges	2			(1,287)	(870)
Profit on ordinary activities before taxation	3			12,679	9,021
Taxation on profit on ordinary activities	6			(2,077)	(2,977)
Profit on ordinary activities after taxation				10,602	6,044
Dividends	7			(2,094)	(1,805)
Retained profit for the financial year	21			8,508	4,239
Earnings per ordinary share (re-stated)	8				
- basic				36.2p	21.8p
- fully diluted				34.9p	21.2p

Compel Group PLC has no recognised gains or losses during the current and previous year other than those passing through the Profit and Loss account.

Consolidated Balance Sheet

As at 30 June 1999

	Note	1999 £'000	1999 £'000	1998 £'000	1998 £'000
Fixed assets					
Negative goodwill	9		(9,061)		–
Tangible assets	10		17,157		11,970
Investments	11		25		25
			8,121		11,995
Current assets					
Stocks	12	17,585		12,255	
Debtors	13	82,346		48,090	
Investments	14	2,228		2,166	
Cash at bank and in hand		4,204		1,166	
		106,363		63,677	
Creditors					
Amounts falling due within one year	15	(68,203)		(53,950)	
Net current assets			38,160		9,727
Total assets less current liabilities			46,281		21,722
Creditors					
Amounts falling due after more than one year	16		(13,514)		(4,329)
Provisions for liabilities and charges	18		(1,949)		(318)
Deferred income	19		(4,350)		(4,080)
Net assets			26,468		12,995
Capital and reserves					
Called up share capital	20		1,509		1,418
Shares to be issued	21		1,662		2,500
Share premium account	21		4,887		18,393
Capital reserve	21		–		–
Other reserves	21		–		(19,519)
Profit and loss account	21		18,410		10,203
Equity shareholders' funds	22		26,468		12,995

Approved by the board on 14 September 1999 and signed on its behalf by:

N Davis Director

A J Lee Director

Company Balance Sheet

As at 30 June 1999

	Note	1999 £'000	1999 £'000	1998 £'000	1998 £'000
Fixed assets					
Investments	11		32,301		21,485
Current assets					
Debtors - due within one year		8,987		3,295	
- due after one year		4,900		5,112	
	13	13,887		8,407	
Investments	14	2,228		2,166	
Cash at bank and in hand		2,722		–	
		18,837		10,573	
Creditors					
Amounts falling due within one year	15	(6,383)		(4,550)	
Net current assets			12,454		6,023
Total assets less current liabilities			44,755		27,508
Creditors					
Amounts falling due after more than one year	16		(12,100)		(200)
Net assets			32,655		27,308
Capital and reserves					
Called up share capital	20		1,509		1,418
Shares to be issued	21		1,662		2,500
Share premium account	21		4,869		18,375
Capital reserve	21		18,393		–
Other reserves	21		5,159		4,334
Profit and loss account	21		1,063		681
Equity shareholders' funds	22		32,655		27,308

Approved by the board on 14 September 1999 and signed on its behalf by:

N Davis Director   A J Lee Director

Consolidated Cash Flow Statement

For the year ended 30 June 1999

	Note	1999 £'000	1999 £'000	1998 £'000	1998 £'000
Net cash inflow from operating activities	24		15,451		8,455
Returns on investments and servicing of finance					
Interest received		137		149	
Interest paid		(1,014)		(863)	
Interest on finance leases		(6)		(7)	
			(883)		(721)
Taxation					
UK corporation tax paid			(2,963)		(2,232)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(10,750)		(11,564)	
Proceeds on sale of tangible fixed assets		1,568		1,581	
			(9,182)		(9,983)
Acquisitions and disposals					
Investment in joint venture		–		(25)	
Purchase of subsidiary undertakings		(350)		(582)	
Purchase of trade and net assets		–		(835)	
Acquisition expenses		(827)		(376)	
Net overdraft acquired		(9,979)		(434)	
Sale of subsidiary undertaking		992		–	
			(10,164)		(2,252)
Equity dividends paid			(1,878)		(1,550)
Net cash outflow before use of liquid resources and financing			(9,619)		(8,283)
Management of liquid resources					
Loan note deposit			(62)		(679)
Financing					
Issue of shares		5,010		3,046	
Share issue costs		(45)		(56)	
Increase/(decrease) in debt		10,500		(400)	
Capital element of finance lease rental payments		(63)		(40)	
Loan notes		62		679	
Net cash inflow from financing			15,464		3,229
Increase/(decrease) in cash in the year	26		5,783		(5,733)

Notes to the Accounts

1 Turnover and segmental information

Turnover comprises sales of computer systems and services to major computer users, within the United Kingdom. In the opinion of the directors, only one class of business is operated by the Group.

2 Interest payable and similar charges

	1999 £'000	1998 £'000
Bank overdrafts	**499**	358
Bank and other loans, repayable within five years	**766**	478
Finance leases	**6**	7
Other interest payable	**16**	27
	1,287	870

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

		1999 £'000	1998 £'000
Auditors' remuneration*	- Audit (Company)	**11**	9
	- Audit (subsidiary undertakings)	**78**	62
	- Other	**39**	45
Operating lease rentals	- Plant, machinery and motor vehicles	**2,395**	1,711
	- Other	**1,831**	995
Amortisation of goodwill**		**(7,258)**	–
Depreciation of owned assets		**8,157**	6,113
Depreciation of leased assets		**32**	20

* The auditors also received £50,000 for services in connection with acquisitions, which has been included in the cost of investment shown in note 11.

**The release of negative goodwill arising from the acquisition of Info'Products UK PLC is included in administrative expenses relating to the acquisition.

4 Staff numbers and costs

The average number of employees (including directors) during the year was as follows:

	1999 Numbers	1998 Numbers
Sales and distribution	377	285
Technical	564	340
Administration	216	143
	1,157	768

The aggregate payroll costs of these persons were as follows:

	1999 £'000	1998 £'000
Wages and salaries	33,239	21,374
Social security costs	3,328	2,039
Pension costs	571	389
	37,138	23,802

5 Directors' remuneration and interests in shares

Executive Directors

	1999 Basic Salary	Benefits	Bonus	Sub-Total	Pension	Total	1998 Total excluding pensions	Pension	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
N Davis	175	30	78	283	23	306	276	32	308
D P Frankling	120	18	46	184	17	201	156	19	175
M I Howling*	135	17	30	182	16	198	61	5	66
W A Joss	100	12	73	185	10	195	195	10	205
J A Kemp*	–	–	–	–	–	–	129	10	139
A J Lee	100	16	27	143	13	156	124	10	134
	630	93	254	977	79	1,056	941	86	1,027

Non-Executive Directors

Fees	Sir Michael Bett	R Clark	P A Moore*	G J Towell*
	£'000	£'000	£'000	£'000
1998	15	35	11	3
1999	**18**	**50**	**15**	**–**

* The remuneration shown covers the period from appointment to, or until resignation from, the Board.

The beneficial interests of the directors and their connected persons in the shares of the Company as required to be notified by each director pursuant to Section 324 of the Companies Act 1985 and required to be shown in the Register of Directors' Interests maintained under Section 325 of the Companies Act 1985 were:

Ordinary shares of 5p each	As at 30 June 1999 Number	As at 1 July 1998 Number
N Davis	2,208,037	2,208,037
A J Lee	482,164	487,164
D P Frankling	335,120	335,120
W A Joss	220,416	257,416
R Clark	173,978	173,978
Sir Michael Bett	10,873	10,873
M I Howling	–	–
P A Moore	–	–

There have been no changes in the directors' holdings between 30 June 1999 and the date of this report.

5 Directors' remuneration and interests in shares (continued)

An analysis of the share options held by each executive director is set out below

	At 1 July 1998	Granted during year	Exercised during year	At 30 June 1999	Exercise price	Market price on date of exercise	Date from which exercisable	Expiry date
N Davis	2,027	–	–	**2,027**	88p	–	01/05/2000	01/11/2000
	1,151	–	–	**1,151**	156p	–	01/05/2001	01/11/2001
	1,118	–	–	**1,118**	161p	–	01/05/2002	01/11/2002
	560	–	–	**560**	321p	–	01/05/2003	01/11/2003
	–	468 *	–	**468**	384p	–	01/05/2004	01/11/2004
D P Frankling	1,118	–	–	**1,118**	161p	–	01/05/2002	01/11/2002
	125,000	–	–	**125,000**	245p	–	26/03/2000	26/03/2007
M I Howling	150,000	–	–	**150,000**	411p	–	23/03/2001	23/03/2008
W A Joss	–	–	–	**–**	–	–	–	–
A J Lee	2,027	–	–	**2,027**	88p	–	01/05/2000	01/11/2000
	1,151	–	–	**1,151**	156p	–	01/05/2001	01/11/2001
	1,118	–	–	**1,118**	161p	–	01/05/2002	01/11/2002
	560	–	–	**560**	321p	–	01/05/2003	01/11/2003
	–	468 *	–	**468**	384p	–	01/05/2004	01/11/2004

* Options granted under the savings related share option scheme.

The Company's share price at close of business on 30 June 1999 was 376.5p. The price range during the year was 266p to 482p. *None of the non-executive directors held share options during the year. There have been no changes to the directors' share* options between 30 June 1999 and the date of this report.

6 Taxation on profit on ordinary activities

		1999 £'000	1998 £'000
UK Corporation tax at 30.75% (1998: 31%)		**2,410**	3,302
Deferred taxation		**–**	129
Adjustments in respect of prior years	- current taxation	**(333)**	(406)
	- deferred taxation	**–**	(48)
		2,077	2,977

The effective tax rate for 1999 is reduced due to the amortisation of non-taxable goodwill.

7 Dividends

	1999 £'000	1998 £'000
Interim dividend paid 2.4p per share (1998: 2.1p)	687	602
Final dividend proposed 4.6p per share (1998: 4.2p)	1,407	1,203
	2,094	1,805

8 Earnings per share

The calculation of earnings per ordinary share is based on profits of £10,602,000 (1998: £6,044,000) and on a weighted average of 29,286,778 (1998: 27,722,242) ordinary shares in issue during the year. The calculation of fully diluted earnings per ordinary share(*) is based on adjusted profits and weighted average ordinary shares of 30,406,252 (1998: 28,516,998) which would arise if all outstanding share options were exercised and shares attributable to deferred consideration were issued.

* Fully diluted earnings per share have been re-stated in accordance with Financial Reporting Standard 14.

9 Negative goodwill

	Cost £'000	Amortisation £'000	Net book value £'000
At 1 July 1998	–	–	–
Additions	(16,319)	–	(16,319)
Negative goodwill written back	–	7,258	7,258
At 30 June 1999	**(16,319)**	**7,258**	**(9,061)**

The majority of the negative goodwill in excess of the fair values of the non-monetary assets is expected to be credited to the profit and loss account in the year ended 30 June 2000.

10 Tangible assets

CONSOLIDATED	Rental equipment £'000	Office equipment £'000	Fixtures and fittings £'000	Computer systems and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 July 1998	18,043	1,231	1,160	4,583	183	25,200
Acquisitions	–	106	2,205	1,457	–	3,768
Additions	5,865	547	385	3,906	–	10,703
Disposals	(3,499)	(24)	(9)	–	(41)	(3,573)
At 30 June 1999	**20,409**	**1,860**	**3,741**	**9,946**	**142**	**36,098**
Depreciation						
At 1 July 1998	9,729	431	388	2,637	45	13,230
Charge for year	5,571	581	732	1,274	31	8,189
Disposals	(2,453)	(1)	(8)	–	(16)	(2,478)
At 30 June 1999	**12,847**	**1,011**	**1,112**	**3,911**	**60**	**18,941**
Net book value						
At 30 June 1999	**7,562**	**849**	**2,629**	**6,035**	**82**	**17,157**
At 30 June 1998	8,314	800	772	1,946	138	11,970

Leased assets included above:

Net book value	Rental equipment	Office equipment	Fixtures and fittings	Computer systems and equipment	Motor vehicles	Total
At 30 June 1999	**–**	**20**	**–**	**–**	**52**	**72**
At 30 June 1998	–	30	–	–	109	139

11 Investments

	Consolidated 1999 £'000	Consolidated 1998 £'000	Company 1999 £'000	Company 1998 £'000
Subsidiary undertakings	–	–	32,276	21,460
Joint ventures	25	25	25	25
	25	25	32,301	21,485

Principal group investments

Compel Group PLC has the following investments in wholly-owned subsidiaries and joint ventures, all of which operate predominantly in the United Kingdom.

Subsidiary Undertakings	Country of Registration	Nature of Business
Compelserve Limited	England & Wales	Dormant
Compelsource PLC	England & Wales	IT systems and services
Compel IP Limited	England & Wales	IT systems and services
Computer Microrentals Limited	England & Wales	Non trading
Hamilton Rentals Group Limited	England & Wales	Intermediate holding company
Abtex Systems Limited	Scotland	Intermediate holding company
Joint Ventures		
GlobalServe Computer Services Limited	England & Wales	International alliance management

The Company has a 25% share in the ordinary share capital of GlobalServe Computer Services Limited.

Subsidiary Undertakings

Investment at cost in subsidiaries	£'000
At 1 July 1998	21,460
Additions	10,816
At 30 June 1999	**32,276**

Acquisition of Info'Products UK PLC

On 8 January 1999, the Company acquired the whole of the issued share capital of Info'Products UK PLC (subsequently renamed Compel IP Limited) for a consideration of £1; as part of the transaction, the Company also assumed and repaid £10 million of Info'Products' indebtedness.

11 Investments (continued)

The fair values of the acquired assets and liabilities have been determined on a provisional basis pending the conclusion of the directors' review of the acquired company. These can be summarised as follows

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Tangible fixed assets	3,893	(125)	3,768
Current assets	49,287	917	50,204
Current liabilities	(36,045)	(792)	(36,837)
Net assets	17,135	–	17,135
Goodwill			(16,319)
Acquisition expenses			816

Fair value adjustments relate to the alignment of accounting policies and the re-classification of assets and liabilities.

This subsidiary undertaking contributed £1,340,000 to the Group's net operating cash flows, paid £31,000 in respect of net returns on investments and servicing of finance utilised £170,000 for capital expenditure activities and realised £992,000 net of disposal costs, in relation to the sale of its Irish subsidiary.

Summary Profit and Loss Account of Info'Products UK PLC

For the period from 1 January 1998 to the date of acquisition

	£'000
Turnover	142,718
Operating loss	(20,479)
Loss before taxation	(22,913)
Taxation	4,736
Loss after taxation	(18,177)

The loss on ordinary activities after taxation for the year ended 31 December 1997 was £18,562,000.

12 Stocks

	Consolidated 1999 £'000	Consolidated 1998 £'000
Maintenance stock and consumables	3,683	1,943
Finished goods and goods for resale	13,902	10,312
	17,585	12,255

13 Debtors

	Consolidated 1999 £'000	Consolidated 1998 £'000	Company 1999 £'000	Company 1998 £'000
Trade debtors	61,956	43,326	2	–
Amounts owed by group undertakings	–	–	13,576	8,135
Other debtors	15,016	3,328	–	–
Prepayments and accrued income	4,600	861	36	9
Corporation tax recoverable	774	100	–	–
Group relief receivable	–	–	273	51
Advance corporation tax recoverable (within 1 year)	–	263	–	–
Advance corporation tax recoverable (after more than 1 year)	–	212	–	212
	82,346	48,090	13,887	8,407

Amounts owed by group undertakings includes £4,900,000 (1998: £4,900,000) which is repayable after more than one year. Included within other debtors is £nil (1998: £100,000) which is repayable after more than one year.

14 Current asset investments

	Consolidated 1999 £'000	Consolidated 1998 £'000	Company 1999 £'000	Company 1998 £'000
Loan note deposit	2,228	2,166	2,228	2,166
	2,228	2,166	2,228	2,166

Treasury deposits securing guaranteed loan notes, previously included within debtors, have been re-classified as a current asset investment. The directors consider this better reflects their commercial nature.

15 Creditors: amounts falling due within one year

	Consolidated 1999 £'000	Consolidated 1998 £'000	Company 1999 £'000	Company 1998 £'000
Obligations under finance leases (note 17)	40	88	–	–
Bank overdraft	–	2,745	–	38
Term loans	1,700	500	1,000	–
Loan notes	2,228	2,166	2,228	2,166
Trade creditors	44,106	28,806	50	25
Amounts owed to group undertakings	–	–	865	271
Pension contributions	24	14	6	12
Deferred acquisition consideration	100	350	100	300
Other creditors	3,484	1,065	–	–
Advance corporation tax	–	474	–	212
Mainstream corporation tax	2,494	3,307	–	–
Other taxation and social security	4,103	2,975	121	60
Accruals	8,517	10,257	606	263
Proposed dividends payable	1,407	1,203	1,407	1,203
	68,203	53,950	6,383	4,550

The bank overdraft is secured by fixed and floating charges over the Group's assets.

16 Creditors: amounts falling due after more than one year

	Consolidated 1999 £'000	Consolidated 1998 £'000	Company 1999 £'000	Company 1998 £'000
Obligations under finance leases (note 17)	14	29	–	–
Term loans due in one to two years	1,700	2,700	1,000	–
Term loans due in two to five years	8,700	1,400	8,000	–
Other loans due in one to two years	1,000	–	1,000	–
Other loans due in two to five years	2,000	–	2,000	–
Deferred acquisition consideration	100	200	100	200
	13,514	4,329	12,100	200

The term loans are secured by fixed and floating charges and bear interest at rates of 1.15% and 1.25% over LIBOR. The other loan bears interest at 2% over LIBOR.

17 Obligations under finance lease agreements

	Consolidated 1999 £'000	1998 £'000
Amounts falling due		
Within one year	44	96
Between one and two years	15	20
Between two and five years	–	15
	59	131
Less: finance charges relating to future periods	(5)	(14)
	54	117
The total obligation is included in		
Creditors: amounts falling due within one year (note 15)	40	88
Creditors: amounts falling due after more than one year (note 16)	14	29
	54	117

18 Provisions for liabilities and charges

	Property £'000	Consolidated Lease £'000	Total £'000
Balance at 1 July 1998	77	241	318
Charged to profit and loss account	1,695	–	1,695
Utilised during year	(12)	(52)	(64)
Balance at 30 June 1999	1,760	189	1,949

In accordance with Financial Reporting Standard 12, provision has been made for rent to be incurred on properties which are surplus to group requirements following the acquisition and reorganisation of Info'Products UK PLC.

Deferred tax	Consolidated Unprovided 1999 £'000	Unprovided 1998 £'000
Difference between accumulated depreciation and capital allowances	(2,221)	(1,261)
Other timing differences	(350)	(227)
Deferred tax asset	(2,571)	(1,488)

19

Deferred income

	Consolidated 1999 £'000	1998 £'000
Income to be recognised within one year	**4,295**	3,932
Income to be recognised after one year	**55**	148
Deferred income at 30 June	**4,350**	4,080

Deferred income includes an incentive payment received of £39,000 (1998: £102,000) in respect of an agreement to lease a building. In accordance with UITF Abstract 12 the reverse premium is being recognised on a straight line basis over the period to the rent review date.

20

Share capital

	Consolidated & Company 1999 Number	1998 Number
Authorised: 5p ordinary shares	**40,000,000**	40,000,000
Allotted, called-up and fully paid: 5p ordinary shares	**30,185,906**	28,364,314

During the year shares were allotted and fully paid as follows:

- 248,243 shares with aggregate nominal value of £12,412 were issued as deferred consideration of £838,000 in respect of the acquisition of Abtex Systems Limited.
- 625,000 shares with aggregate nominal value of £31,250 were issued as Subscription Shares to the vendor of Info'Products UK PLC, for a consideration of £2,000,000.
- 937,500 shares with aggregate nominal value of £46,875 were issued on 8 January 1999 in a non pre-emptive placing to institutions at a placing price of 320p per share, for which consideration before expenses of £3,000,000 was received. The market price of the shares at the close of business on the day prior to the issue was 397p per share.
- 10,849 shares with aggregate nominal value of £543 were issued as a result of the exercise of share options by employees, for which total consideration of £10,447 was received.

As at 30 June 1999 there were 346,081 options issued under an approved executive share option scheme, 349,319 options issued under an unapproved executive share option scheme, and 420,012 options issued under an approved savings related share option scheme. The schemes involve options to buy ordinary shares at prices between 88p and 468p. The options are exercisable over the period 1999-2009.

21

Reserves

Consolidated

	Share premium £'000	Shares to be issued £'000	Capital reserve £'000	Other reserves £'000	Profit and loss £'000
Opening reserves	18,393	2,500	–	(19,519)	10,203
Shares issues, less expenses	4,887	(838)	–	825	–
Cancellation and transfer	(18,393)	–	18,393	–	–
Transfer from goodwill reserve	–	–	(18,393)	18,694	(301)
Retained profit for the year	–	–	–	–	8,508
Closing reserves	4,887	1,662	–	–	18,410

Company

	Share premium £'000	Shares to be issued £'000	Capital reserve £'000	Other reserves £'000	Profit and loss £'000
Opening reserves	18,375	2,500	–	4,334	681
Shares issues, less expenses	4,887	(838)	–	825	–
Cancellation and transfer	(18,393)	–	18,393	–	–
Retained profit for the year	–	–	–	–	382
Closing reserves	4,869	1,662	18,393	5,159	1,063

Cumulative goodwill of £24,532,000 in respect of acquisitions of subsidiary undertakings before 30 June 1998 has been written off against reserves.

A Special Resolution was passed at the Annual General Meeting of the Company held on 29 October 1998, whereby the whole amount then standing to the credit of the Company's share premium account was cancelled and transfered to a capital reserve against which an equivalent amount of goodwill arising on consolidation (of companies acquired pre 30 June 1998) could be written off. The confirmation of the Court in accordance with the Companies Act 1985 was obtained on 9 December 1998.

22

Movement in shareholders' funds

	Consolidated 1999 £'000	Consolidated 1998 £'000	Company 1999 £'000	Company 1998 £'000
Opening shareholders' funds	**12,995**	8,732	**27,308**	19,497
Retained profit for the financial year	**8,508**	4,239	**382**	196
Goodwill acquired during the financial year	**–**	(7,591)	**–**	–
Issue of shares - nominal value	**91**	117	**91**	117
Premium on issue of shares	**5,712**	5,593	**5,712**	5,593
Shares to be issued	**(838)**	1,905	**(838)**	1,905
Closing shareholders' funds	**26,468**	12,995	**32,655**	27,308

23 Commitments

The annual commitments of the Group under operating leases are as follows

	1999 Land and buildings £'000	1999 Other £'000	1998 Land and buildings £'000	1998 Other £'000
Leases which expire:				
Within 1 year	249	586	164	501
In second to fifth year inclusive	485	1,488	11	896
After 5 years	1,831	–	870	–
	2,565	2,074	1,045	1,397

At 30 June 1999 the Group had contracted capital commitments of £50,000 (1998: £325,000). Contract hire agreements for motor vehicles may be cancelled on payment of an early termination charge.

24 Reconciliation of operating profit to operating cash flow

	1999 £'000	1998 £'000
Operating profit	13,829	9,742
Depreciation charges	8,189	6,133
Amortisation of goodwill	(7,258)	–
Profit on sale of fixed assets	(473)	(165)
Decrease/(increase) in stocks	4,042	(4,479)
Decrease/(increase) in debtors	4,223	(14,657)
(Decrease)/increase in creditors	(7,676)	10,540
(Decrease)/increase in deferred income	(1,056)	1,374
Increase/(decrease) in provisions	1,631	(33)
Net cash inflow from operating activities	15,451	8,455

25 Reconciliation of net cash flow to movement in net debt

	1999 £'000	1999 £'000	1998 £'000	1998 £'000
Increase/(decrease) in cash in year	**5,783**		(5,733)	
Cash outflow from decrease in lease financing	**63**		40	
Net cash (inflow)/outflow from (increase)/decrease in debt funding	**(10,500)**		400	
Cash outflow from increase in liquid resources	**62**		679	
Loan notes issued	**(62)**		(679)	
Change in net debt resulting from cash flow		**(4,654)**		(5,293)
Loans and finance leases acquired with subsidiary		**–**		(55)
New finance leases		**–**		(68)
Movement in net debt in year		**(4,654)**		(5,416)
Opening net debt		**(6,296)**		(880)
Closing net debt		**(10,950)**		(6,296)

26 Analysis of net debt

	At 1 July 1998 £'000	Cash flow £'000	Non-cash movements £'000	At 30 June 1999 £'000
Cash at bank and in hand	1,166	3,038		**4,204**
Overdraft	(2,745)	2,745		**–**
	(1,579)	5,783		**4,204**
Debt due after one year	(4,100)	(10,000)	700	**(13,400)**
Debt due within one year	(500)	(500)	(700)	**(1,700)**
Loan notes	(2,166)	(62)	–	**(2,228)**
Finance leases	(117)	63	–	**(54)**
		(10,499)		
Current asset investments	2,166	62	–	**2,228**
Total	(6,296)	(4,654)	–	**(10,950)**

Notice of Annual General Meeting

Notice is hereby given that the ninth Annual General Meeting of Compel Group PLC will be held at 11.30 am on 28 October 1999 at the offices of SG Securities (London) Ltd, Exchange House, Primrose Street, Broadgate, London EC2A 2DD for the following purposes:

To consider and, if thought fit, pass the following resolutions 1 to 6 as ORDINARY RESOLUTIONS and Resolutions 7 and 8 as SPECIAL RESOLUTIONS.

Ordinary Resolutions

Accounts

1. To receive and adopt the accounts for the year ended 30 June 1999 and the reports of the directors and auditors thereon.

Dividend

2. To declare the final dividend in respect of the year ended 30 June 1999.

Directors

To re-elect the following directors who retire by rotation in accordance with the Company's Articles of Association:

3. N Davis (note 3)
4. R Clark (note 3)

Auditors

5. That KPMG Audit Plc be and are hereby reappointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be set by the directors.

Renew Directors Authority to Allot Shares

6. That the directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to allot, make offers or agreements to allot, or grant the right to subscribe for, or convert other securities into, relevant securities (as defined in the said Section 80) provided that:

i. such authority shall be limited to an aggregate nominal amount of £503,098 (representing not more than one third of the total share capital in issue as at the date of this notice);
ii. such authority shall expire at the sooner of the close of the following Annual General Meeting or the expiry of fifteen months from the date of the passing of the Resolution; and
iii. the Company may before such expiry make such an offer or agreement which would, or might, require relevant securities to be allotted after that expiry.

Special Resolutions

Disapplication of Statutory Pre-Emption Rights

7. That the directors be empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94 of the Act) in the following cases, as if sub-section 89 (1) of the Act did not apply:

i. to the allotment of equity securities whereby there will be an offer of all such securities, whether made by the Company or some other person, open for acceptance for a period fixed or approved by the directors, to holders of Ordinary Shares on the Register on a fixed record date in proportion to

Notice of Annual General Meeting

their then holdings of such shares (but subject to such exclusion or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or to deal with any legal or practical problems or requirements of the laws of, or any recognised regulatory body or stock exchange in, any territory); and

ii. to the allotment of equity securities up to an aggregate nominal amount of £75,464 (representing not more than 5% of the issued ordinary share capital of the Company as at the date of this notice).

But provided that:

a. the power shall expire at the sooner of the close of the following Annual General Meeting and the expiry of fifteen months following the date of passing of the resolution; and
b. the Company may before such expiry make an offer or agreement thereunder which would or might require equity securities to be allotted after its expiry.

Authorise the Purchase in the Stock Market of up to 5% of the Company's Issued Share Capital

8. That pursuant to Article 4.1 of the Articles of Association of the Company and subject to the provisions of the Companies Act 1985 ("the Act") the Company be authorised to purchase by market purchase (as defined by Section 163 of the Act) up to, 1,509,295 Ordinary Shares of 5p each in its own capital subject to the following:

i. the purchase price for any shares so purchased shall not exceed a sum equal to one hundred and five per cent of the average of the middle market quotation for the ten business days proceeding the day of purchase (as derived from The Stock Exchange Daily Official List) and shall not be less than the nominal value of the shares;
ii. the authority shall expire on the earlier of the close of the next Annual General Meeting or the expiry of fifteen months from the date of the passing of the Resolution;
iii. the Company may make a contract for purchase which would, or might, be executed wholly or partly after the expiry of the authority;
iv. any shares purchased pursuant to the authority may be selected by the directors in any manner as they from time to time deem appropriate; and
v. save as provided the authority shall be general and unconditional.

By order of the Board

A J Lee
Secretary
14 September 1999

NOTES:

1. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. A proxy form for use in connection with the meeting is enclosed. Signed forms of proxy together with the power of attorney or authority (if any) under which they are signed must be lodged with the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 3UH no later than 48 hours before the time fixed for the meeting. Completion of a form of proxy will not preclude a member from attending the meeting and voting in person.

2. The Register of Directors' Shareholdings and copies of all directors' service contracts are available for inspection at the registered office of the Company during normal business hours on any weekday, except Saturdays and Public Holidays, and will be available at the place of the meeting from 15 minutes prior to the meeting until its conclusion.

3. Biographical details of the directors are contained on pages 9 and 10 of the Annual Report and Accounts.

ecord Dat

nnual General Mee

yment of Final Div

erim Result Announ

yment of Interim Div

nal Result Announ