

**HIGHAMS SYSTEMS SERVICES
GROUP LIMITED**

DIRECTORS' REPORT AND

FINANCIAL STATEMENTS

for the year ended 31 March 1996

BINDER HAMLYN

Company number 1700310



HIGHAMS SYSTEMS SERVICES GROUP LIMITED

DIRECTORS

JE Higham (Chairman)
EI Andrews
DJ Drinan

SECRETARY

EI Andrews

REGISTERED OFFICE

Hammond House
33/45 Croydon Road
Caterham
Surrey
CR3 6PB

AUDITORS

Binder Hamlyn
17 Lansdowne Road
Croydon
CR9 2PL

BANKERS

Barclays Bank PLC
Central Croydon Branch
North End
Croydon
CRO 1RN

SOLICITORS

Ormerod Wilkinson Marshall
Green Dragon House
64 - 70 High Street
Croydon
CRO 9XN

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

DIRECTORS' REPORT for the year ended 31 March 1996

FINANCIAL STATEMENTS

The directors present their report and financial statements for the year ended 31 March 1996.

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 its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 maintaining proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company are the provision of integrated high quality business systems consultancy, systems services, systems resources and software products in the financial services market.

The directors are pleased to report another very good year with turnover and profit both improved on the previous year. This has been achieved by the strategy of concentration on our core market and the continued commitment of the staff. Recruitment services performed particularly well and the Factoring Application Software is now widely installed in the UK and mainland Europe.

The directors are actively planning continued profitable growth, in particular, by the development of existing services. Additional investment in people in all areas will enable the company to increase its penetration of core markets, and the company has restructured the Systems Services as Microsoft Solution Provider focused mainly on the insurance market.

RESULTS AND DIVIDENDS

The results of the company for the year are set out in the profit and loss account on page 4. An interim dividend of £1.00 (1995: £0.59) was paid on 2 November 1995. The directors do not recommend payment of a final dividend.

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

DIRECTORS' REPORT for the year ended 31 March 1996

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 9 to the financial statements.

DIRECTORS

The persons who held the office of director throughout the year were as follows:

JE Higham (Chairman)
EI Andrews
DJ Drinan

DIRECTORS' INTERESTS IN SHARES

The persons who held the office of director at 31 March 1996 had the following interests in the shares of the company at the beginning and end of the financial year:

	£1 ordinary shares fully paid	
	31 March 1996	1 April 1995
JE Higham	24,400	24,400
EI Andrews	8,500	8,500
DJ Drinan	8,500	8,500

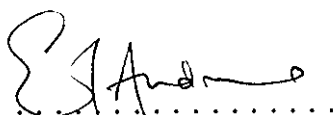
SHARE OPTION SCHEMES

In November 1995, the company established the Highams Systems Services Group Limited Employee Share Option Scheme, following which options were granted in respect of 400 £1 ordinary shares at a subscription price of £40 per share. At the same time, an Employee Share Benefit Trust was established. Further information is given in note 20 to the financial statements.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be re-appointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the Board on 19 August 1996


EI Andrews
Director

BINDER HAMLYN

17 Lansdowne Road
Croydon CR9 2PL

AUDITORS' REPORT

to the members of Highams Systems Services Group Limited

We have audited the financial statements on pages 4 to 15 which have been prepared on the basis of the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 1, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

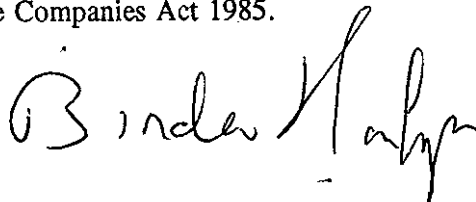
Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company as at 31 March 1996 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Registered Auditors

20 August 1996

HIGHAMS SYSTEMS SERVICES GROUP LIMITED**PROFIT AND LOSS ACCOUNT
for the year ended 31 March 1996**

	Notes	1996	1995
		£	£
Turnover		13,227,496	11,173,989
Cost of sales		(11,033,130)	(9,110,127)
Gross profit		2,194,366	2,063,862
Administrative expenses		(1,299,734)	(1,454,600)
Operating profit	3	894,632	609,262
Interest receivable and similar income	4a	9,313	137
Interest payable	4b	(4,878)	(11,311)
Profit on ordinary activities before taxation		899,067	598,088
Tax on profit on ordinary activities	7	(299,500)	(216,017)
Profit for the financial year		599,567	382,071
Dividends	8	(41,500)	(24,485)
Retained profit for the year	15	558,067	357,586

All of the above results derive from continuing activities and there were no acquisitions in the period.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

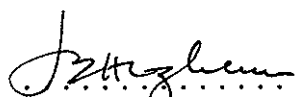
Except for the result for the financial year, as shown above, the company had no recognised gains or losses.

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

BALANCE SHEET
as at 31 March 1996

	Notes	1996	1995
		£	£
FIXED ASSETS			
Tangible assets	9	106,926	136,783
Investment in subsidiary undertakings	10	6	6
		106,932	136,789
CURRENT ASSETS			
Debtors	11	2,404,647	2,492,542
Cash at bank and in hand	18(a)	650,774	114
		3,055,421	2,492,656
CREDITORS: amounts falling due within one year	12	(1,515,071)	(1,556,730)
Net current assets		1,540,350	935,926
Total assets less current liabilities		1,647,282	1,072,715
PROVISIONS FOR LIABILITIES AND CHARGES	13	(16,500)	-
NET ASSETS		1,630,782	1,072,715
CAPITAL AND RESERVES			
Called up share capital	14	41,500	41,500
Capital redemption reserve	15	8,500	8,500
Profit and loss account	15	1,580,782	1,022,715
Equity shareholders' funds	16	1,630,782	1,072,715

The financial statements on pages 4 to 15 were approved by the Board on


JE Higham

) 19th August 96

) Directors


DJ Drinan

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HIGHAMS SYSTEMS SERVICES GROUP LIMITED

CASH FLOW STATEMENT for the year ended 31 March 1996

	Notes	1996	1995
		£	£
Net cash inflow from operating activities	17	1,013,894	208,466
Returns on investments and servicing of finance			
Interest received		9,313	137
Interest paid		(4,878)	(11,311)
Dividends paid		(41,500)	(54,437)
Net cash outflow from returns on investments and servicing of finance		(37,065)	(65,611)
Taxation			
UK corporation tax paid		(208,434)	(113,917)
Investing activities			
Purchase of tangible fixed assets		(48,134)	(101,549)
Proceeds on disposal of tangible fixed assets		25,600	20,935
Net cash outflow from investing activities		(22,534)	(80,614)
Net cash inflow/(outflow) before financing		745,861	(51,676)
Financing			
Increase/(decrease) in cash and cash equivalents	18(b)	745,861	(51,676)

1 ACCOUNTING POLICIES

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

Turnover represents amounts receivable for services provided net of trade discounts and value added tax.

Tangible fixed assets and depreciation

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

Computer equipment	- 50% on cost
Furniture, fittings and office equipment	- 25% on cost
Motor vehicles	- 25% on written down value

Leasing commitments

Assets obtained under leases which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of the lease so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each period.

Payments under other leases (operating leases) are charged to the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a funded defined contribution pension scheme. The pension cost charge represents contributions payable by the company to the pension scheme in the year.

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES (continued)

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

Compliance with accounting standards

The financial statements have been prepared in accordance with applicable accounting standards.

2 TURNOVER

An analysis of turnover by business and geographical segments is not given as, in the opinion of the directors, disclosure of this information would be prejudicial to the interests of the company.

3 OPERATING PROFIT is stated after charging	1996 £	1995 £
Auditors' remuneration	13,000	11,500
Depreciation	44,848	95,925
Loss on sale of fixed assets	7,543	10,638
Operating lease rentals - buildings	39,975	54,252
- vehicles	25,968	-

4 INTEREST

(a) Interest receivable and similar income

Bank deposit interest	9,313	137
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(b) Interest payable

Bank overdraft interest	4,878	11,311
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HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5 INFORMATION REGARDING EMPLOYEES (including directors)

(a) Staff costs

Total staff costs were as follows:	1996 £	1995 £
Wages and salaries	1,449,065	1,535,346
Social security costs	126,261	158,586
Other pension costs	139,368	142,729
	1,714,694	1,836,661

(b) Staff numbers

The average number of persons employed by the company during the year was as follows:

	Number	Number
Management	6	6
Production and administration	31	34
Sales and marketing	3	3
	40	43

6 DIRECTORS

(a) Directors' emoluments

	£	£
Remuneration as executives (including benefits-in-kind and pension contributions)	389,719	423,186

The emoluments of directors (excluding pension contributions) include amounts in respect of:

Chairman	92,794	119,515
Highest paid director (1995: Chairman)	112,060	119,515

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

6 DIRECTORS *continued*

(b) Bandings

Directors' emoluments, excluding pension contributions, fell within the following bands:

	1996 Number	1995 Number
£ 90,001 - £ 95,000	1	-
£105,001 - £ 110,000	1	-
£110,001 - £ 115,000	1	1
£115,001 - £ 120,000	-	2
	3	3

7 TAXATION

	£	£
UK corporation tax at an effective rate of 32% (1995: 31%) on the adjusted profit for the year	283,000	211,588
Prior year adjustments	-	4,429
Transfer to deferred tax	16,500	-
	299,500	216,017

8 DIVIDENDS

Interim dividend of £1.00 per share paid (1995 £0.59)	41,500	24,485
Final dividend	-	-
	41,500	24,485

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9 TANGIBLE FIXED ASSETS

	Computer equipment £	Furniture, fittings and office equipment £	Motor vehicles £	Total £
Cost				
1 April 1995	120,233	38,965	214,007	373,205
Additions	3,620	-	44,514	48,134
Disposals	-	-	(74,385)	(74,385)
31 March 1996	123,853	38,965	184,136	346,954
Depreciation				
1 April 1995	117,896	23,063	95,463	236,422
Charge for the year	4,892	7,452	32,504	44,848
Disposals	-	-	(41,242)	(41,242)
31 March 1996	122,788	30,515	86,725	240,028
Net book value				
31 March 1996	1,065	8,450	97,411	106,926
31 March 1995	2,337	15,902	118,544	136,783

10 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

1996 and 1995

Cost £ 6

The company owns the entire issued ordinary share capital of Highams Computer Services Limited, Feature Computers Limited and Fenchurch Street Computers Limited, all of which are registered in England.

All the subsidiary undertakings have remained dormant during the year, and group accounts have not been prepared as the amounts involved are considered immaterial.

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11 DEBTORS

	1996 £	1995 £
Trade debtors	2,347,424	2,395,421
Prepayments and accrued income	24,175	61,121
Other debtors	33,048	36,000
	<u>2,404,647</u>	<u>2,492,542</u>

12 CREDITORS: amounts falling due within one year

Bank overdrafts	23,784	118,985
Amounts owed to subsidiary undertaking	25,000	25,000
Trade creditors	687,086	599,879
Corporation tax	278,666	204,100
Other taxes and social security costs	213,296	275,973
Accruals and deferred income	286,414	331,968
Other creditors	825	825
	<u>1,515,071</u>	<u>1,556,730</u>

Bank overdrafts are secured by a fixed and floating charge over all the assets of the company.

13 DEFERRED TAX

Deferred tax, which represents the full potential liability, is in respect of timing differences in the recognition of payments into the Employee Share Benefit Trust as expenses for taxation and accounting purposes.

14 SHARE CAPITAL

(a) Summary	Authorised		Allotted, called up and fully paid	
	1996 Number	1995 Number	1996 £	1995 £
Ordinary £1 shares	50,000	50,000	41,500	41,500

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14 SHARE CAPITAL *continued*

(b) Contingent rights to the allotment of shares

During the year, options were granted under the Highams Systems Services Group Limited Employee Share Option Scheme, details of which are provided in note 20(a).

15 MOVEMENT IN RESERVES

	Capital redemption reserve £	Profit and loss account £
1 April 1995	8,500	1,022,715
Retained profit for the year	-	558,067
31 March 1996	8,500	1,580,782

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 £	1995 £
Profit for the financial year	599,567	382,071
Dividends	(41,500)	(24,485)
Net addition to shareholders' funds	558,067	357,586
Opening shareholders' funds	1,072,715	715,129
Closing shareholders' funds	1,630,782	1,072,715

17 RECONCILIATION OF OPERATING RESULT TO NET CASH FLOW FROM OPERATING ACTIVITIES

Operating profit	894,632	609,262
Depreciation	44,848	95,925
Decrease/(increase) in debtors	87,895	(1,103,654)
(Decrease)/increase in creditors	(21,024)	596,295
Loss on disposal of fixed assets	7,543	10,638
	1,013,894	208,466

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 CASH AND CASH EQUIVALENTS	1996 £	1995 £
(a) Balance of cash and cash equivalents		
Cash at bank and in hand	650,774	114
Bank overdraft	(23,784)	(118,985)
	626,990	(118,871)

Cash at bank and in hand includes £50,000 (1995: £ nil) in respect of monies held in an Employee Share Benefit Trust.

(b) Change in the balance of cash and cash equivalents

1 April 1995	(118,871)	(67,195)
Net cash inflow/(outflow) for year	745,861	(51,676)
31 March 1996	626,990	(118,871)

19 FINANCIAL COMMITMENTS

Operating leases:

At 31 March 1996, the company had annual commitments under non-cancellable operating leases as follows:

	1996		1995	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases expiring:				
Within one year	8,750	-	-	-
Between two and five years	-	27,437	17,500	1,469
After more than five years	33,312	-	38,500	-
	42,062	27,437	56,000	1,469

20 EMPLOYEE SHARE SCHEMES

(a) Employee Share Option Scheme

In November 1995, the company established the Highams Systems Services Group Limited Employee Share Option Scheme. Options were granted for 400 £1 ordinary shares in the company at a subscription price of £40 per share, exercisable between December 1998 and November 2002. The Board of Directors may from time to time, at its absolute discretion, grant options to eligible participants. No options may be granted after the seventh anniversary of the scheme's approval.

(b) Employee Share Benefit Trust

An Employee Share Benefit Trust was established in November 1995 and its Trustees have the power to grant options to eligible employees over shares in the company at the Trust's expense, and at the Trustees' discretion, upon such terms as they think fit and to purchase such shares to be acquired by the eligible employees.

In accordance with Urgent Issues Task Force Abstract 13 (UITF 13), for such trusts, shares⁴ and liabilities, where they have been guaranteed by the sponsoring company, are recognised in the sponsoring company's balance sheet. Similarly, in accordance with UITF 13, any financing and administrative costs would be charged to the profit and loss account as they accrue and not as funding payments are made by the sponsoring company. Any permanent diminution in the value of shares classified as fixed assets is recognised immediately in the sponsoring company's financial statements. Where such trusts conditionally gift shares or put them under option to employees at below the book value, the difference between book value and residual value would be charged as an operating cost over the period of service of the employees in respect of which the gifts or options are granted.

During the year, the company made a contribution of £50,000 to the Trust as funding to acquire shares in the company in due course. At the balance sheet date, the Trust had not acquired any shares. Its only asset at 31 March 1996 was cash at bank of £50,000, which is included in the company's balance sheet as part of cash at bank and in hand. The Trust had no liabilities.