

**HIGHAMS SYSTEMS SERVICES
GROUP LIMITED**

INTERIM FINANCIAL STATEMENTS

for the six months ended 30 September 1996

BINDER HAMLYN

Company number 1700310



HIGHAMS SYSTEMS SERVICES GROUP LIMITED

DIRECTORS

NN Graham Maw (Chairman)
JE Higham (Managing Director)
EI Andrews
DJ Drinan
MA Eve (Finance Director)

SECRETARY

MA Eve

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

PROFIT AND LOSS ACCOUNT for the six months ended 30 September 1996

	Notes	6 months ended 30 September 1996	Year ended 31 March 1996
		£	£
Turnover		7,359,440	13,227,496
Cost of sales		(6,293,308)	(11,033,130)
Gross profit		1,066,132	2,194,366
Administrative expenses		(684,319)	(1,299,734)
Operating profit	3	381,813	894,632
Interest receivable and similar income	4a	6,551	9,313
Interest payable	4b	(249)	(4,878)
Profit on ordinary activities before taxation		388,115	899,067
Tax on profit on ordinary activities	7	(115,743)	(299,500)
Profit for the financial period		272,372	599,567
Dividends	8	-	(41,500)
Retained profit for the period	15	272,372	558,067

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 period, as shown above, the company had no recognised gains or losses.

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

CASH FLOW STATEMENT for the six months ended 30 September 1996

	Notes	6 months ended 30 September 1996		Year ended 31 March 1996	
		£	£	£	£
Net cash (outflow)/inflow from operating activities	17		(425,650)		1,013,894
Returns on investments and servicing of finance					
Interest received		6,551		9,313	
Interest paid		(249)		(4,878)	
Dividends paid		-		(41,500)	
Net cash inflow/(outflow) from returns on investments and servicing of finance			6,302		(37,065)
Taxation					
UK corporation tax received/(paid)			5,890		(208,434)
Investing activities					
Purchase of tangible fixed assets		(88,400)		(48,134)	
Proceeds on disposal of tangible fixed assets		10,500		25,600	
Net cash outflow from investing activities			(77,900)		(22,534)
Net cash (outflow)/inflow before financing			(491,358)		745,861
Financing					
(Decrease)/increase in cash and cash equivalents	18(b)		(491,358)		745,861

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Preparation of the financial statements

These financial statements do not represent the company's statutory accounts but have been prepared in anticipation of the proposed re-registration of the company as a public company and its proposed application to be admitted to the Alternative Investment Market as explained in note 21.

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

	6 months ended 30 September 1996 £	Year ended 31 March 1996 £
Auditors' remuneration	7,500	13,000
Depreciation	22,982	44,848
(Profit)/loss on sale of fixed assets	658	7,543
Operating lease rentals - buildings	19,558	39,975
- vehicles	12,984	25,968

4 INTEREST

(a) Interest receivable and similar income

Bank deposit interest	6,551	9,313
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(b) Interest payable

Bank overdraft interest	249	4,878
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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:	6 months ended 30 September 1996 £	Year ended 31 March 1996 £
Wages and salaries	757,709	1,449,065
Social security costs	70,551	126,261
Other pension costs	68,404	139,368
	896,664	1,714,694

(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	35	31
Sales and marketing	3	3
	44	40

6 DIRECTORS

(a) Directors' emoluments

	£	£
Remuneration as executives (including benefits-in-kind and pension contributions)	155,451	389,719

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

Chairman (during period)	36,710	92,794
Highest paid director	43,179	112,060

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:

	6 Months ended 30 September 1996 Number	Year ended 31 March 1996 Number
£ 35,001 - £ 40,000	1	-
£ 40,001 - £ 45,000	2	-
£ 90,001 - £ 95,000	-	1
£105,001 - £110,000	-	1
£110,001 - £115,000	-	1
	3	3

7 TAXATION

	£	£
UK corporation tax at an effective rate of 33% (year ended 31 March 1996: 32%) on the adjusted profit for the period	134,000	283,000
Prior year adjustments	(18,257)	-
Transfer to deferred tax	-	16,500
	115,743	299,500

8 DIVIDENDS

Interim dividend of £nil per share paid (year ended 31 March 1996: £1.00)	-	41,500
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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 1996	123,853	38,965	184,136	346,954
Additions	15,829	-	72,571	88,400
Disposals	-	-	(35,520)	(35,520)
30 September 1996	139,682	38,965	221,187	399,834
Depreciation				
1 April 1996	122,788	30,515	86,725	240,028
Charge for the period	2,330	2,562	18,090	22,982
Disposals	-	-	(25,678)	(25,678)
30 September 1996	125,118	33,077	79,137	237,332
Net book value				
30 September 1996	14,564	5,888	142,050	162,502
31 March 1996	1,065	8,450	97,411	106,926

10 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

30 September 1996 and
31 March 1996

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 period, 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

	30 September 1996 £	31 March 1996 £
Trade debtors	2,655,876	2,347,424
Prepayments and accrued income	215,093	24,175
Other debtors	33,379	33,048
	2,904,348	2,404,647

12 CREDITORS: amounts falling due within one year

Bank overdrafts	-	23,784
Amounts owed to subsidiary undertaking	25,000	25,000
Trade creditors	530,034	687,086
Corporation tax	400,299	278,666
Other taxes and social security costs	148,127	213,296
Accruals and deferred income	178,549	286,414
Other creditors	825	825
	1,282,834	1,515,071

Bank overdrafts are secured by a fixed and floating charge over all the assets of the company. Accruals include £45,000 (31 March 1996: £ nil) of unpaid pension contributions.

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	
	30 September 1996 Number	31 March 1996 Number	30 September 1996 £	31 March 1996 £
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

Options have been 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 1996	8,500	1,580,782
Retained profit for the year	-	272,372
30 September 1996	8,500	1,853,154

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 September 1996 £	31 March 1996 £
Profit for the financial year	272,372	599,567
Dividends	-	(41,500)
Net addition to shareholders' funds	272,372	558,067
Opening shareholders' funds	1,630,782	1,072,715
Closing shareholders' funds	1,903,154	1,630,782

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

Operating profit	381,813	894,632
Depreciation	22,982	44,848
(Increase)/decrease in debtors	(499,701)	87,895
Decrease in creditors	(330,086)	(21,024)
(Profit)/loss on disposal of fixed assets	(658)	7,543
	(425,650)	1,013,894

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

18 CASH AND CASH EQUIVALENTS

	30 September 1996 £	31 March 1996 £
(a) Balance of cash and cash equivalents		
Cash at bank and in hand	135,632	650,774
Bank overdraft	-	(23,784)
	135,632	626,990

Cash at bank and in hand includes £50,533 (31 March 1996: £50,000) in respect of monies held in an Employee Share Benefit Trust.

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

1 April 1996	626,990	(118,871)
Net cash outflow/(inflow) for period	(491,358)	745,861
30 September 1996	135,632	626,990

19 FINANCIAL COMMITMENTS

Operating leases:

At 30 September 1996, the company had annual commitments under non-cancellable operating leases as follows:

	30 September 1996		31 March 1996	
	Land and buildings £	Other £	Land and buildings £	Other £
Leases expiring:				
Within one year	-	11,186	8,750	-
Between two and five years	-	-	-	27,437
After more than five years	30,388	-	33,312	-
	30,388	11,186	42,062	27,437

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. Subsequent to the balance sheet date, in November 1996, the company granted further options for 1,800 £1 ordinary shares in the company at a subscription price of £40 per share, exercisable between November 1999 and October 2003.

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, shares 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 period, the company made a contribution of £ nil (year ended 31 March 1996: £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 30 September 1996 was cash at bank of £50,533 (year ended 31 March 1996: £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.

21 PROPOSED ADMISSION TO AIM

The decision was taken during the period to convert the company into a public company and that application then be made for its shares to be admitted to the Alternative Investment Market (AIM). The directors believe that the company will continue to grow and it is now an appropriate time to seek a public quotation for the company's shares so as to raise the market profile of the company, to facilitate future access to the market to help to finance further growth in the future and to provide liquidity for the company's existing shareholders. The costs of the proposed admission to AIM have not been provided for in these financial statements, as it is intended to raise sufficient new monies from a placing of new shares to cover the costs associated with the admission.

HIGHAMS SYSTEMS SERVICES GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22 DIRECTORS' RESPONSIBILITIES

The directors have prepared the interim financial statements for the 6 months to 30 September 1996 so that they give a true and fair view of the state of affairs of the company and of its profit or loss for the period. In preparing the interim financial statements, the directors are required to:

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

The directors are responsible for 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.

23 DIRECTORS' INTERESTS IN SHARES

The persons who held the office of director at 30 September 1996 had the following interests in the shares of the company at the beginning and end of the financial period:

	£1 ordinary shares fully paid	
	30 September 1996	1 April 1996
JE Higham	24,400	24,400
EI Andrews	8,500	8,500
DJ Drinan	8,500	8,500