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FINANCIAL HIGHLIGHTS

	<i>Year ended 31 March</i>		<i>Change</i> %
	<i>1997</i>	<i>1996</i>	
	<i>£'000</i>	<i>£'000</i>	
Turnover	16,395	13,227	+24
Pre-tax profit	879	899	-2.2
Post tax profit	609	600	+1.5
Earnings per share	7.2p	7.2p	0

In view of our rapid rate of expansion, the potential for acquisition and consequent need to conserve financial resources, the Directors do not recommend payment of a dividend in respect of these results.

FINANCIAL CALENDAR

Annual General Meeting	25 July 1997
Interim results	December 1997

DIRECTORS AND OFFICERS

Directors

NN Graham Maw *Non-executive Chairman*

JE Higham *Chief Executive*

EI Andrews

DJ Drinan

MA Eve *Finance Director*

Secretary

MA Eve

Registered Office

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

Registrars

Independent Registrars Group Limited
Balfour House
390/398 High Road
Ilford
Essex IG1 1NG

Auditors

Binder Hamlyn
17 Lansdowne Road
Croydon
CR9 2PL

Nominated Adviser and Broker

Teather & Greenwood
12 - 20 Camomile Street
London
EC3A 7NN

Bankers

Barclays Bank Plc
Central Croydon Branch
North End
Croydon
CR0 1RN

Solicitors

Ormerod Heap & Marshall
Green Dragon House
64 - 70 High Street
Croydon
CR0 9XN

Registered number

1700310

BOARD OF DIRECTORS



Nigel Nawton Graham Maw

MA LLM (Cantab) (aged 63), Non-Executive Chairman

Nigel Graham Maw was, until April 1993, Senior Partner of Rowe & Maw, Solicitors. He is the principal co-author of "Maw on Corporate Governance" and is also special visiting professor to the Department of Law at Nottingham University. He was formerly Deputy Chairman and then Chairman of Decca Limited from 1979 to 1980, and was a non-executive director of Telephone Rentals plc from 1984 to 1989. He is non-executive Chairman of PEX plc.



John Edward Higham

ACII (aged 52), Chief Executive and Deputy Chairman

John Higham started his career in insurance in various technical and business capacities and gained in-depth experience of the London insurance market, life and general insurance. He joined Lonsdale Systems Limited in 1977 where he spent 6 years implementing packaged financial software before founding Highams in February 1983.



Edward Ian Andrews

(aged 45), Executive Director

Ted Andrews has been a director of Highams since joining the Company in November 1983. Before joining Highams he spent 7 years at Lonsdale Systems Limited implementing insurance software projects in a variety of technical and management capacities and 5 years at Noble Lowndes & Partners as a programmer and analyst. He is responsible for the Recruitment Services Division and the Financial Systems Division of Highams.



Denis John Drinan

(aged 51), Executive Director

Denis Drinan has been a director of Highams since November 1983 and is responsible for the Business Solutions Division. He has 28 years experience of implementing and managing IT systems projects. Prior to joining Highams he had 4 years experience at Lonsdale Systems Limited implementing insurance systems solutions, preceded by 8 years IT experience in local government.



Maurice Anthony Eve

FCA (aged 43), Finance Director and Company Secretary

Tony Eve was appointed Finance Director on 29 October 1996. He is a chartered accountant and is the sole practitioner at his own accountancy practice, Tony Eve Associates, based in South Croydon and specialising in tax and business advice. He has acted as Highams' financial consultant for the last 5 years, and now commits as much time as is necessary to fulfil his responsibilities as Finance Director.

NOTICE OF MEETING

Notice is hereby given that the 14th Annual General Meeting of Highams Systems Services Group Plc will be held at 20 Old Bailey, London EC4M 7BH at 11.30 am on Friday, 25 July 1997 for the following purposes:

- 1 To receive the report of the directors and audited accounts for the financial year ended 31 March 1997.
- 2 To re-appoint as a director of the company Mr DJ Drinan who, in accordance with the Articles of Association, retires by rotation.
- 3 To re-appoint as a director of the company Mr NN Graham Maw who, having been appointed as a director since the previous Annual General Meeting and in accordance with the articles, seeks re-election.
- 4 To re-appoint as a director of the company Mr MA Eve who, having been appointed as a director since the previous Annual General Meeting and in accordance with the articles, seeks re-election.
- 5 To re-appoint Binder Hamlyn as auditors and authorise the directors to determine their remuneration.

By order of the Board

MA Eve
Secretary



1 July 1997

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

Notes

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend (and on a poll to vote) in his place. A proxy need not be a member of the company. A form of proxy is included on page 31.

Copies of the directors' service contracts will be available for inspection during normal business hours at the registered office until the date of the Annual General Meeting and from 11.15 am to the end of the Annual General Meeting at the venue for that meeting.

CHAIRMAN'S STATEMENT

I am happy to report to shareholders on the first accounts of the Company since its shares were listed on the Alternative Investment Market in December 1996.

Overall Financial Results

Profits for the year, pre-tax, were £878,707 on turnover of £16,394,589 (year to 31 March 1996: pre-tax profits of £899,067 on turnover of £13,227,496). The figures for the half year to 30 September 1996 which were reported on by our auditors for the purposes of the AIM listing showed pre-tax profits of £388,115 on turnover of £7,359,440. We had a good second half, which augurs well for the future. Your Directors, bearing in mind the fast rate of expansion in the demand for our services, and the potential for acquisition of other service companies operating in areas ancillary to our niche markets, have decided not to recommend payment of a dividend in respect of these results.

Financial Position

In December 1996, as part of the Admission to Trading on the Alternative Investment Market of Highams' shares, 550,000 new ordinary shares of 5p each, together with 350,000 existing ordinary shares owned by two of the three founding shareholders, were placed on the Market at 72p per share. The net proceeds of the placing of the new shares which became available to the company amounted to £231,363. These proceeds enlarged the cash resources already available to the company. This financial strength will stand us in good stead as our existing businesses continue to expand, inevitably impacting on our use of the cash resources available to us.

Board Changes

In anticipation of Admission of Highams' shares on AIM, I was invited to join the Board as Non-Executive Chairman and Tony Eve was appointed Finance Director and Secretary.

Both having become directors since the last AGM, each of us retires from the Board at this year's AGM. We each offer ourselves for re-election.

Corporate Governance

Your Board supports the principles embodied in the "Cadbury" Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance ("the Code"), and recognises that the prime responsibility for implementing the Code lies with the Board and that shareholders are entitled to information as to the extent to which it has, as yet, not been practicable to comply, and as to what is to be done to redress the areas where there is not, as yet, full compliance.

We have also considered the recommendations of the City Group for Smaller Companies ("CISCO") in its bulletin "The Financial Aspects of Corporate Governance: Guidance for Smaller Companies". The bulletin identified areas of the Code which may initially prove difficult for smaller companies to implement, and suggests minimum standards in those areas.

Your Board believes that the standards outlined in the bulletin (with which we are in substantial compliance) are more relevant to a business of the size of Highams which is on AIM, rather than, as yet, fully listed.

CHAIRMAN'S STATEMENT

Number of Non-Executive Directors: at present, I am the only NED. Cadbury requires three, and CISCO recommends two. There are at present no plans to appoint any further NEDs. The recommendation that there should be at least two is to enable the NEDs to liaise and "not to be isolated or dominated". I am happy with the high degree of liaison I have with the Chief Executive and the other Executive Directors, and in no way do I feel isolated or dominated!

Division of responsibilities: we comply both with the Code and with CISCO by having separate roles of Chairman and Chief Executive.

Board Procedure: Board Meetings take place regularly (once a month), we have an agenda which always includes a report of management accounts by the Finance Director, we have adopted a schedule of matters requiring full Board approval before implementation by the Executives, we have adopted a Dealing Code for regulating share dealings not only by Directors and their families but also by all personnel within the Company, such Code being based on, but more stringent than, the Stock Exchange Model Code.

Audit Committee: this is chaired by myself, with the Chief Executive and one other Executive Director (but not the Finance Director) as members. As the only NED, I have meetings (alone) with the auditors at least twice a year.

Remuneration Committee: this is also chaired by myself, with the Chief Executive and the Finance Director as the other members.

In respect of both these committees, we comply with CISCO.

My terms of appointment as a Non-Executive Director: I am not entitled to share options or to any compensation on the termination of my appointment. My appointment is not for a fixed or an indefinite period, but it is terminable by the Company at any time by Ordinary Resolution. Again, these provisions comply with CISCO.

Finally, we have adopted Guidelines for Directors (and for the Company Secretary) which define and delineate their roles and responsibilities.

Share Scheme

The Board has approved amendments to the rules of the existing Executive Share Option Scheme. Share options can be exercised subject to minimum EPS performance criteria which are designed to produce profitable growth, motivate participants in the scheme and provide stability in the workforce.

Bonus Scheme

The Board has also approved the operation of an annual bonus scheme which is designed to motivate and reward senior staff subject to the satisfactory achievement of defined performance criteria. The Remuneration Committee has absolute discretion.

Outlook and current trading

The successful launch of Highams onto AIM in December of 1996 was a major step forward in the history of the Company.

CHAIRMAN'S STATEMENT

Whilst involving a heavy extra commitment in management time and resources, the launch - which was well supported by Highams' staff at all levels - has helped to strengthen further the resources available to the Company to develop more widely into the niche markets in which we operate, and subsequent experience has supported our views that there are good opportunities for expansion both in-house and by acquisition.

At the year end, we had several important projects on hand, and I am delighted to be able to report that many of these projects, as well as new approaches from clients, have already matured into firm contracts, in particular for our Recruitment Services and Financial Systems divisions.

Whilst our Business Solutions division has yet to show its full potential after its repositioning as a Microsoft® Solution Provider last year, we believe that it forms a basis for versatile and flexible expansion of its activities in the future.

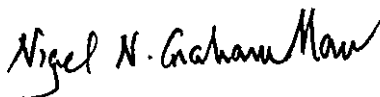
Overall the current year has started well for all divisions, not only as a result of our new contracts but also with our now having a record number of contractors working at clients' sites. Whilst continuing to derive organic growth, we are also seeking to gain strategic benefit from the strengths of being a quoted plc.

A number of potential new business opportunities have been presented to us as possible purchases, and we are carefully and selectively evaluating these to determine the best complement to our existing activities and to support us in our goal of increasing shareholder value.

Executives and Staff

I would like to thank and pay tribute to all our staff at Highams. Their skills, hard work, enthusiasm and dedication form the basis for past results and for continuing growth and success in the future. I am delighted that so many of them are now shareholders in this public company of which they are so vitally a part. It is a privilege and a joy to work with such a fine team. I am very happy and proud to be their Chairman, as well as yours.

Nigel N Graham Maw
Chairman



23 June 1997

CHIEF EXECUTIVE'S OPERATING REVIEW

I am pleased to report that Highams has had another good year overall and has exceeded both its budgets and market forecasts for the year.

Demand for Systems Services has continued to increase, driven by the need to harness new technologies, the need for flexible resourcing and the effect of the forthcoming date change in year 2000.

We continue to distinguish ourselves from the competition by developing as niche specialists. Within our chosen specialist market sector of Insurance and Finance there is constant change which continues to put pressure on our clients to develop their systems.

In our AIM flotation prospectus we explained the need to re-invest in all of our three operating divisions which was expected to have a short term negative impact on profits growth. During the year we expanded our premises and recruited new staff. This will continue during 1997/8 together with investment in new systems in Recruitment Services. We have experienced some of the benefits in the year under review, though we have still to gain the full potential from this reinvestment and in particular from our repositioning and accreditation as a Microsoft® Solution Provider in our Business Solutions division.

Trading Review

Recruitment Services

This is the largest trading division which provides skilled contract and permanent IT personnel.

Its prime business lies in the selection (from a large number of independent contractors on the division's database) of the right personnel to satisfy the needs of a particular client, and contracting them out to the client on IT projects - which can vary from a few weeks to a number of months.

This division again saw the biggest gains with the number of contractors on site increasing 39% on year end comparisons. Turnover and profit both increased.

The division, in the year under review, showed divisional operating profits of £1,602,578 on turnover of £14,523,939.

Growth in demand for contract IT staff remains strong. We have secured preferred and sole supplier arrangements at major insurance clients at acceptable margins which will make significant contribution to revenue and profit in this financial year.

We plan to select and implement new systems during this current financial year which will help to minimise our increasing administrative burden. We also plan to continue to recruit new quality sales and support staff.

With the demands for skilled computer and programming personnel independently forecast to grow nationally by more than 13% p.a.* compound over the next three years, there is clearly a strong market for the division in the future.

Business Solutions

This division provides IT consultancy, project management, business systems design and systems development to clients operating principally in the insurance sector.

CHIEF EXECUTIVE'S OPERATING REVIEW

During the year we repositioned the systems services aspects of Highams, as an authorised Microsoft® Solution Provider. This entailed a considerable amount of marketing investment, recruitment and training to gain accreditation.

Sales have yet to meet full expectations and Revenue fell to £936,036 during the year, though still showing a divisional operating profit of £33,671.

We believe that specialist applications software packages are strategic to the division's future and we have developed a joint marketing agreement with a client to market a Broker Schemes System.

We are confident that this division forms the basis for successful future profitable development. However, we will need constantly to monitor our technical strategy and react to the changing business and technical needs of our clients.

Financial Systems

This division provides specialist proprietary software packages for the factoring of debts. It made divisional operating profits of £306,275 on turnover of £934,614. At the year end, two major sales on which the division had long been working, were reaching - but had not yet reached - fruition. I am delighted to be able to report that, since the year end, one has matured into a major contract, much - but not all - of the payment being due to fall into the current year.

We further developed the system for Year 2000 compliance and improved the functionality for our current client base.

The success of the system has generated increasing interest from asset based finance companies both large and small and we are hopeful that this will turn into future solid business.

As stated in our AIM prospectus, we foresee substantial expansion in UK and global markets in the future. We plan to continue to enhance the functional and technical attributes of the system, and considerably expand staff numbers to cope with the increased demand for support and development services.

Prospects

Our markets require flexible systems resources to react rapidly to new technology and competition. This need has fuelled the demand for IT contractors and software solutions with the market forecast to expand by 13% p.a.* We are already experiencing increased demand to cope with systems changes as a result of the well publicised Year 2000 date change and have yet to feel the impact of systems changes arising from EMU upon our markets. All this bodes well for the foreseeable future.

The demand for IT skills

IT outsourcing is forecast to continue to expand by 20% p.a.* in the next 3 years. The increasing IT skills gap means that our competitors are seeking additional ways of supplying their clients' needs, such as consultancy services and IT training. Highams has already been providing systems consultancy for some years, and we are also examining new services to add value to the existing services.

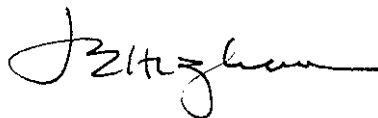
Highams is developing links with partners in mainland Europe for the extension of our services and we are optimistic that our efforts will be profitable.

CHIEF EXECUTIVE'S OPERATING REVIEW

Staff

I would like to reiterate the Chairman's thanks to the exceptional team of staff which Highams has the good fortune to employ. We will continue to strive to recognise and reward their contribution.

John Higham
Chief Executive



23 June 1997

**Source: Holway*

DIRECTORS' REPORT

for the year ended 31 March 1997

The directors present their report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 March 1997.

Principal activity

Highams is a specialist IT systems services company and its principal activity is the provision of recruitment, systems consultancy, support and development services and factoring software. The company operates principally in the Insurance and Financial sectors. Further details on the company's operations are given in the Chief Executive's operating review.

Results and dividends

The directors are pleased to report another successful year with turnover further improved on the previous year, and with a similar profit. These exceeded both our budgeted expectations and market forecasts. Turnover for the year increased from £13.2m to £16.4m. The profit for the year before taxation was £878,707 (1996: £899,067) and the profit after taxation was £609,117 (1996: £599,567).

As noted in the Chairman's statement, the directors do not recommend a final dividend (1996: £nil). No interim dividend was paid during the year (1996: £1.00 per share).

Directors

Current directors of the company are on page 3. Mr JE Higham, Mr EI Andrews and Mr DJ Drinan served throughout the year. Mr NN Graham Maw and Mr MA Eve were appointed to the board on 29 October 1996.

Directors' interests in shares

The persons who held the office of director at 31 March 1997 had the following interests in the shares of the company at the beginning (or date of appointment if later) and end of the financial year:

	<i>Number of ordinary shares fully paid</i>	
	<i>31 March 1997</i>	<i>1 April 1996</i>
		<i>(or date of appointment if later)</i>
	<i>5p shares</i>	<i>£1 shares</i>
NN Graham Maw	10,400	-
JE Higham	4,670,000	24,400
EI Andrews	1,700,000	8,500
DJ Drinan	1,560,000	8,500
MA Eve	14,000	-

Notes

- 1 JE Higham's interest includes 415,000 shares held by the John Higham Family Trust
- 2 DJ Drinan's interest includes 100,000 shares held by his wife and 100,000 shares held by The Drinan Trust (1996)
- 3 MA Eve has further non-beneficial interests in the 515,000 shares in aggregate held by the John Higham Family Trust and by The Drinan Trust (1996) of which he is a trustee.

DIRECTORS' REPORT

for the year ended 31 March 1997

None of the directors held options over shares in the company during the period.

The Highams Systems Services Group Employee Share Benefit Trust, of which JE Higham, EI Andrews, DJ Drinan and MA Eve are trustees, holds 56,000 ordinary shares.

The following changes took place in the interests of directors between 31 March 1997 and 18 June 1997:

Name of director	Change
JE Higham	100,000 shares transferred to his wife and 200,000 to The John Higham Family Trust.

Increase in share capital

By written resolutions dated 28 November 1996:

- the authorised share capital was increased to £600,000 by the creation of 550,000 new ordinary shares of £1 each;
- each ordinary share of £1 in the issued and unissued share capital of the company was sub-divided into 20 ordinary shares of 5p each; and
- £373,500 of the company's revenue reserves were appropriated to the holders of ordinary shares and applied to pay up in full, at par, 7,470,000 ordinary shares which were distributed to shareholders in the proportion of nine ordinary shares for each ordinary share held.

During the year, the company allotted, for cash, 550,000 ordinary shares of 5p each with a nominal value of £27,500 at a premium of £368,500. This followed a placing of shares to cover the costs associated with the company's admission to the Alternative Investment Market and to provide additional working capital.

Share option schemes

The company adopted an Employee Share Option Scheme on 15 November 1995 which is not approved by the Inland Revenue. Under the terms of this scheme, certain employees of the company were granted options over ordinary shares of £1 each in the company on 30 November 1995 and 18 November 1996 all exercisable at a price of £40 per share. With each ordinary share of £1 in the share capital of the company being sub-divided into 20 ordinary shares of 5p, and following a subsequent bonus issue of shares, pursuant to a capitalisation issue, in the proportion of nine ordinary 5p shares for each ordinary 5p share held, the number of options held was varied. Each option holder now has options over 200 ordinary shares for every option over an ordinary share of £1 previously held and the revised subscription price is now £0.20 per ordinary share. The total number of shares under option at 31 March 1997 was 440,000.

The company adopted an Inland Revenue approved Executive Share Option Scheme on 17 May 1996. No options have been granted under this scheme. The directors anticipate that any future grant of options over ordinary shares will be under this scheme. The recipients of future options, the number of options to be granted and the targeted performance criteria which relate to them will be determined by the Remuneration Committee.

Further information is given in note 21 to the accounts.

DIRECTORS' REPORT

for the year ended 31 March 1997

Supplier payment policy

The company's policy is to pay its contractors by direct credit into their bank accounts immediately correct invoices are received. The company's policy with regards to other suppliers is to settle amounts due in accordance with the terms of payment agreed when agreeing the terms of each transaction. The trade creditor days at 31 March 1997 was 33 (1996: 25).

Charitable and political donations

During the year, the company made charitable donations of £30 (1996: £452). There were no political donations.

Auditors

The directors will place a resolution before the annual general meeting to re-appoint Binder Hamlyn as auditors for the ensuing year.

This report was approved by the Board of Directors on 18 June 1997.

MA Eve
Secretary



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 the company and of the profit or loss of the company 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; and
- prepare the accounts on the going concern basis unless it is inappropriate to assume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the company and enable them to ensure that the accounts 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.

AUDITORS' REPORT

To the shareholders of Highams Systems Services Group plc

We have audited the accounts on pages 17 to 29 which have been prepared under the historical cost convention and the accounting policies set out on page 20.

Respective responsibilities of directors and auditors

As described on page 15, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

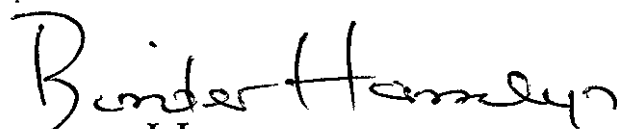
Basis of opinion

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 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 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 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 company's state of affairs at 31 March 1997 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


BINDER HAMLYN

Chartered Accountants and Registered Auditors

17 Lansdowne Road
Croydon CR9 2PL

18 June 1997

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1997

	<i>Notes</i>	<i>1997</i> £	<i>1996</i> £
Turnover	2	16,394,589	13,227,496
Cost of sales		(14,134,354)	(11,033,130)
Gross profit		2,260,235	2,194,366
Administrative expenses		(1,390,020)	(1,299,734)
Operating profit	3	870,215	894,632
Interest receivable	4a	8,860	9,313
Interest payable	4b	(368)	(4,878)
Profit on ordinary activities before taxation		878,707	899,067
Tax on profit on ordinary activities	7	(269,590)	(299,500)
Profit for the financial year		609,117	599,567
Dividends	8	-	(41,500)
Retained profit for the year	16	609,117	558,067
Earnings per share			
• Basic	9	7.2p	7.2p
• Fully diluted	9	7.0p	

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

The accompanying notes are an integral part of this profit and loss account.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Except for the profit for the two financial years, as shown above, the company had no recognised gains or losses.

BALANCE SHEET

31 March 1997

	<i>Notes</i>	<i>1997</i> £	<i>1996</i> £
Fixed assets			
Tangible assets	10	161,998	106,926
Investments	11	40,326	6
		<u>202,324</u>	<u>106,932</u>
Current assets			
Debtors	12	3,859,507	2,404,647
Cash at bank and in hand	19	414,785	650,774
		<u>4,274,292</u>	<u>3,055,421</u>
Creditors: amounts falling due within one year	13	<u>(1,988,854)</u>	<u>(1,515,071)</u>
Net current assets		<u>2,285,438</u>	<u>1,540,350</u>
Total assets less current liabilities		2,487,762	1,647,282
Provisions for liabilities and charges			
Deferred taxation	14	<u>(16,500)</u>	<u>(16,500)</u>
Net assets		<u>2,471,262</u>	<u>1,630,782</u>
Capital and reserves			
Called up share capital	15	442,500	41,500
Share premium	16	203,863	-
Capital redemption reserve	16	8,500	8,500
Profit and loss account	16	<u>1,816,399</u>	<u>1,580,782</u>
Equity shareholders' funds	17	<u>2,471,262</u>	<u>1,630,782</u>

The accounts on pages 17 to 29 were approved by the Board of Directors on 18 June 1997.

NN Graham Maw
JE Higham

} Directors

N. N. Graham Maw
JE Higham

The accompanying notes are an integral part of this balance sheet.

CASH FLOW STATEMENT

for the year ended 31 March 1997

	<i>Notes</i>	1997 £	1996 £
Net cash (outflow)/inflow from operating activities	18	<u>(211,776)</u>	<u>1,013,894</u>
Returns on investments and servicing of finance			
Interest received		8,860	9,313
Interest paid		<u>(368)</u>	<u>(4,878)</u>
Net cash inflow		<u>8,492</u>	<u>4,435</u>
Taxation			
UK corporation tax paid		<u>(262,381)</u>	<u>(208,434)</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(145,312)	(48,134)
Purchase of own shares		(40,320)	-
Proceeds on disposal of tangible fixed assets		<u>18,750</u>	<u>25,600</u>
Net cash outflow		<u>(166,882)</u>	<u>(22,534)</u>
Equity dividends paid		<u>-</u>	<u>(41,500)</u>
Net cash (outflow)/inflow before management of liquid resources and financing		<u>(632,547)</u>	<u>745,861</u>
Financing			
Issue of new ordinary shares (including share premium net of associated costs)		(231,363)	-
(Decrease)/increase in cash in the year	19	<u>(401,184)</u>	<u>745,861</u>
		<u>(632,547)</u>	<u>745,861</u>

The accompanying notes are an integral part of this cash flow statement.

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

1. Accounting policies

Accounting convention

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

Turnover

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation and provision for permanent diminution in value. Depreciation is provided on all tangible fixed assets at 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 per annum
Furniture, fittings and office equipment	- 25% on cost per annum
Motor vehicles	- 25% on written down value per annum

Leases

Payments under operating leases, being leases which do not result in the transfer to the company of substantially all the risks and rewards of ownership of the assets being leased, are charged to the profit and loss account on a straight line basis over the lease term.

Research and development expenditure

Research and development expenditure is written off as incurred.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the time of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

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.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

2. Segment information

a. Classes of business:

	<i>Recruitment Services</i>		<i>Business Solutions</i>		<i>Financial Systems</i>		<i>Total</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover								
Sales to third parties	14,524	11,364	936	1,023	935	840	16,395	13,227
Segment profit	1,603	1,298	34	257	306	335	1,943	1,890
Common costs							(1,073)	(995)
Operating profit							870	895
Interest receivable							9	9
Interest payable							-	(5)
Profit on ordinary activities before taxation							879	899
Segment net assets	1,724	1,274	(34)	(15)	225	56	1,915	1,315
Unallocated net assets							556	316
Net assets							2,471	1,631

Segment profit figures given above have been derived from the company's internal management accounts. Because of the close integration of the three divisions, it has not been possible to accurately apportion common costs on a divisional basis.

Common costs consist principally of charges incurred in respect of the general management, control and administration of the whole company. The main charges relate to directors' pay and that of the general administrative staff, corporate marketing and PR and other costs incurred in connection with the company as a whole.

Unallocated net assets comprise those fixed assets and other assets and liabilities which have not been separately identified by division.

b. Geographical segments:

All turnover and profits originate in the United Kingdom.

	<i>1997</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Turnover by destination was as follows:		
United Kingdom	14,933	12,037
Rest of the world	1,462	1,190
	16,395	13,227

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

3. Operating profit is stated after charging

	1997	1996
	£	£
Auditors' remuneration for audit services	17,000	13,000
Depreciation and amounts written off tangible fixed assets	71,963	44,848
Operating lease rentals		
• buildings	33,312	39,975
• vehicles	<u>25,964</u>	<u>25,968</u>

Amounts payable to Binder Hamlyn by the company in respect of non-audit services were £79,962 (1996: £11,155), which includes £65,243, inclusive of VAT, (1996: £nil) in respect of work undertaken in connection with the company's admission to the Alternative Investment Market which has been charged to the share premium account.

4. Interest

a. Interest receivable

Bank deposit	8,741	9,313
Other interest	<u>119</u>	<u>-</u>
	<u>8,860</u>	<u>9,313</u>

b. Interest payable

Bank overdraft	<u>368</u>	<u>4,878</u>
----------------	------------	--------------

5. Information regarding employees (including directors)

a. Staff costs

Total staff costs were as follows:

Wages and salaries	1,546,822	1,449,065
Social security costs	166,059	126,261
Other pension costs	156,455	139,368
	<u>1,869,336</u>	<u>1,714,694</u>

b. Staff numbers

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

	<i>Number</i>	<i>Number</i>
Management	7	6
Production and administration	34	31
Sales and marketing	<u>4</u>	<u>3</u>
	<u>45</u>	<u>40</u>

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

6. Directors

a. Directors' emoluments:

	<i>Fees/basic salary</i>	<i>Taxable benefits</i>	<i>Money purchase pension contributions</i>	<i>1997 Total</i>	<i>1996 Total</i>
	£	£	£	£	£
Executive					
JE Higham	70,029	4,430	35,000	109,459	119,794
EI Andrews	64,821	6,302	35,000	106,123	137,060
DJ Drinan	77,482	11,275	30,000	118,757	132,865
MA Eve	25,500	-	-	25,500	-
Non-Executive					
NN Graham Maw	8,748	-	-	8,748	-
Aggregate emoluments	<u>246,580</u>	<u>22,007</u>	<u>100,000</u>	<u>368,587</u>	<u>389,719</u>

In addition, MA Eve received £9,000 (1996: £7,260) in consultancy fees during the period prior to his appointment as director.

No annual bonuses, which for the year ended 31 March 1997 were payable at the discretion of the Remuneration Committee, were payable for the year under review.

The services of NN Graham Maw were secured by a letter of appointment, and his appointment can be terminated at any time. JE Higham, EI Andrews and DJ Drinan are employed under service agreements which can be terminated at any time after 30 September 1997 after giving six months' prior notice. The services of MA Eve were secured by an agreement which is terminable on 3 months' notice which will expire at the earliest on 31 January 1998.

b. Directors' share options

None of the directors held options over shares in the company during the period.

c. Directors' pension entitlements

Three directors are members of money purchase pension schemes.

d. Directors' interests

The interest of directors in the shares of the company are given in the directors' report.

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

7. Tax on profit on ordinary activities

The tax charge at 33% (1996: 33%) comprises:

	1997 £	1996 £
Corporation tax on the adjusted profit for the year	288,000	283,000
Deferred taxation	<u>-</u>	<u>16,500</u>
	288,000	299,500
 Prior year adjustments	 (18,410)	 -
	<u>269,590</u>	<u>299,500</u>

8. Dividends

Interim of £ nil per share paid (1996: £1.00)

-	<u>41,500</u>
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9. Earnings per share

The calculation of earnings per share is based on the profit for the financial year of £609,117 (1996: £599,567) and on 8,467,260 (1996: 8,300,000) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the year.

The calculation of fully diluted earnings per share is based on 8,678,438 ordinary shares, allowing for the exercise of outstanding share purchase options, and an adjusted profit of £610,173, after adding interest deemed to be earned from investing the proceeds of such share options in 2% consolidated stock.

10. Tangible fixed assets

	<i>Computer equipment</i> £	<i>Furniture, fittings and office equipment</i> £	<i>Motor vehicles</i> £	<i>Total</i> £
Cost				
1 April 1996	123,853	38,965	184,136	346,954
Additions	34,722	38,024	72,566	145,312
Disposals	<u>-</u>	<u>-</u>	<u>(50,515)</u>	<u>(50,515)</u>
31 March 1997	<u>158,575</u>	<u>76,989</u>	<u>206,187</u>	<u>441,751</u>
Depreciation				
1 April 1996	122,788	30,515	86,725	240,028
Charge for the year	19,178	14,629	38,156	71,963
Disposals	<u>-</u>	<u>-</u>	<u>(32,238)</u>	<u>(32,238)</u>
31 March 1997	<u>141,966</u>	<u>45,144</u>	<u>92,643</u>	<u>279,753</u>
Net book value 31 March 1997	<u>16,609</u>	<u>31,845</u>	<u>113,544</u>	<u>161,998</u>
Net book value 31 March 1996	<u>1,065</u>	<u>8,450</u>	<u>97,411</u>	<u>106,926</u>

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

11. Investments

	1997	1996
	£	£
a. Summary		
Subsidiary undertakings	6	6
Own shares	40,320	-
	<u>40,326</u>	<u>6</u>

b. Investment in subsidiary undertakings

1997 and 1996
£

Cost	<u>6</u>
------	----------

The company owns the entire issued ordinary share capital of three dormant subsidiary undertakings. Group accounts have not been prepared as the amounts involved are considered immaterial.

c. Investment in own shares

The investment in own shares is shown within the balance sheet as a fixed asset, and is in respect of a holding of 56,000 of the company's 5p shares. This represents 0.63% of the company's share capital at 31 March 1997, at which date the market value of these shares was £72,800. These shares are held by the Employee Share Benefit Trust, further details of which are given in note 21c.

12. Debtors

	1997	1996
	£	£
Trade debtors	3,719,489	2,347,424
Other debtors	83,458	33,048
Prepayments and accrued income	56,560	24,175
	<u>3,859,507</u>	<u>2,404,647</u>

13. Creditors: amounts falling due within one year

Bank overdrafts	188,979	23,784
Amounts owed to subsidiary undertaking	25,000	25,000
Trade creditors	1,138,942	687,086
Corporation tax	285,875	278,666
Other taxes and social security costs	269,688	213,296
Accruals and deferred income	80,370	286,414
Other creditors	-	825
	<u>1,988,854</u>	<u>1,515,071</u>

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

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

14. Deferred taxation

Deferred taxation, 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.

15. Share capital

a. Summary

	<i>Authorised</i>		<i>Authorised</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>Number</i>	<i>Number</i>	<i>£</i>	<i>£</i>
Ordinary £1 shares	-	50,000	-	50,000
Ordinary 5p shares	12,000,000	-	600,000	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<i>Allotted, called up</i>		<i>Allotted, called up</i>	
	<i>and fully paid</i>		<i>and fully paid</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>Number</i>	<i>Number</i>	<i>£</i>	<i>£</i>
Ordinary £1 shares	-	41,500	-	41,500
Ordinary 5p shares	8,850,000	-	442,500	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

b. Changes in share capital

By written resolutions dated 28 November 1996:

- the authorised share capital was increased to £600,000 by the creation of 550,000 new ordinary shares of £1 each;
- each ordinary share of £1 in the issued and unissued share capital of the company was sub-divided into 20 ordinary shares of 5p each; and
- £373,500 of the company's revenue reserves were appropriated to the holders of ordinary shares and applied to pay up in full, at par, 7,470,000 ordinary shares which were distributed to shareholders in the proportion of nine ordinary shares for each ordinary share held.

During the year, the company allotted, for cash, 550,000 ordinary shares of 5p each with a nominal value of £27,500 at a premium of £368,500. This followed a placing of shares to cover the costs associated with the company's admission to the Alternative Investment Market and to provide additional working capital.

c. Contingent rights to the allotment of shares

As at 31 March 1997, options have been granted in respect of 440,000 of the company's ordinary 5p shares under the Highams Systems Services Group plc Employee Share Option Scheme to subscribe for ordinary shares of the company as detailed in note 21(a).

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

16. Movement in reserves

	<i>Share premium</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>
	£	£	£
1 April 1996	-	8,500	1,580,782
Appropriation of reserves pursuant to the issue of bonus shares	-	-	(373,500)
Issue of shares	368,500	-	-
Costs associated with the issue of new shares	(164,637)	-	-
Retained profit for the year	-	-	609,117
31 March 1997	<u>203,863</u>	<u>8,500</u>	<u>1,816,399</u>

17. Reconciliation of movements in shareholders' funds

	<i>1997</i>	<i>1996</i>
	£	£
Issue of new shares	231,363	-
Profit for the financial year	609,117	599,567
Dividends	-	(41,500)
Net additions to shareholders' funds	<u>840,480</u>	<u>558,067</u>
Opening shareholders' funds	<u>1,630,782</u>	<u>1,072,715</u>
Closing shareholders' funds	<u>2,471,262</u>	<u>1,630,782</u>

18. Reconciliation of operating result to net cash flow from operating activities

	<i>1997</i>	<i>1996</i>
	£	£
Operating profit	870,215	894,632
Depreciation	71,963	44,848
(Increase)/decrease in debtors	(1,454,860)	87,895
Increase/(decrease) in creditors	301,379	(21,024)
(Profit)/loss on disposal of fixed assets	(473)	7,543
Net cash (outflow)/inflow from operating activities	<u>(211,776)</u>	<u>1,013,894</u>

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

19. Analysis and reconciliation of net debt

	<i>1 April</i> 1996	<i>Cash flow</i>	<i>31 March</i> 1997
	£	£	£
Cash at bank and in hand	650,774	(235,989)	414,785
Overdrafts	<u>(23,784)</u>	<u>(165,195)</u>	<u>(188,979)</u>
Net funds/(debt)	<u>626,990</u>	<u>(401,184)</u>	<u>225,806</u>

Cash at bank and in hand includes £9,680 (1996: £50,000) in respect of monies held in the Employee Share Benefit Trust.

	<i>1997</i> £	<i>1996</i> £
Net funds/(debt) at 1 April 1996	626,990	(118,871)
(Decrease)/increase in cash in the year	<u>(401,184)</u>	<u>745,861</u>
Net funds at 31 March 1997	<u>225,806</u>	<u>626,990</u>

20. Financial commitments

At 31 March 1997, the company had annual commitments under non-cancellable operating leases as follows:

	<i>1997</i>	<i>1996</i>
	<i>Land and</i> <i>buildings</i>	<i>Land and</i> <i>buildings</i>
	£	£
Leases expiring:		
Within one year	-	8,750
Between two and five years	-	27,437
After more than five years	<u>43,312</u>	<u>33,312</u>
	<u>43,312</u>	<u>42,062</u>
	6,492	27,437

21. Employee Share Schemes

a. Unapproved Employee Share Option Scheme

The company adopted an Employee Share Option Scheme on 15 November 1995 which is not approved by the Inland Revenue. Under the terms of this scheme, certain employees of the company were granted options over ordinary shares of £1 each in the company on 30 November 1995 and 18 November 1996 all exercisable at a price of £40 per share. With each ordinary share of £1 in the share capital of the company being sub-divided into 20 ordinary shares of 5p, and following a subsequent bonus issue of shares, pursuant to a capitalisation issue, in the proportion of nine ordinary 5p shares for each ordinary 5p share held, the

NOTES TO THE ACCOUNTS

for the year ended 31 March 1997

number of options held was varied. Each option holder now has options over 200 ordinary shares for every option over an ordinary share of £1 previously held and the revised subscription price is now £0.20 per ordinary share. The scheme will terminate on 15 November 2002. The total number of shares under option at 31 March 1997 was 440,000. The options on 80,000 shares can be exercised between December 1998 and November 2002, and between November 1999 and October 2003 on the balance of 360,000 shares.

b. Approved Employee Share Option Scheme

The company adopted an Inland Revenue approved Executive Share Option Scheme on 17 May 1996. As at 31 March 1997, no options had been granted under this scheme. The directors anticipate that any future grant of options over ordinary shares will be under this scheme. The recipients of future options, the number of options to be granted and the targeted performance criteria which relate to them will be determined by the Remuneration Committee. The scheme will terminate on 17 May 2006.

c. 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, assets 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 accounts. 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 £nil (1996: £50,000) to the Trust as funding to acquire shares in the company in due course. The Trust subscribed for 56,000 of the company's 5p ordinary share, at 72p per share, pursuant to the Placing of shares during the period. None of these shares were transferred to employees or were under option as at 31 March 1997, and they are included in the company's balance sheet at that date as investments in own shares at a cost of £40,320. The Trust's only other asset at 31 March 1997 was cash at bank of £9,680 (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.

FIVE YEAR RECORD

	1997 £ '000	1996 £ '000	1995 £ '000	1994* £ '000	1993* £ '000
Results					
Turnover	16,395	13,227	11,174	6,065	3,663
Operating profit	870	895	609	328	137
Profit on ordinary activities before taxation	879	899	598	327	141
Profit for the financial year	<u>609</u>	<u>600</u>	<u>382</u>	<u>225</u>	<u>106</u>
Assets employed					
Fixed assets	202	107	137	163	159
Net current assets	2,285	1,540	936	577	386
Provisions for liabilities and charges	<u>(16)</u>	<u>(16)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets	<u>2,471</u>	<u>1,631</u>	<u>1,073</u>	<u>740</u>	<u>545</u>
Financed by					
Equity shareholders' funds	<u>2,471</u>	<u>1,631</u>	<u>1,073</u>	<u>740</u>	<u>545</u>
Key statistics					
Earnings per share (Note)	7.2p	7.2p	4.6p	2.7p	1.3p
Return on shareholders' funds**	24.6%	36.8%	35.6%	30.4%	19.4%
Return on assets***	19.6%	28.3%	23.2%	21.0%	14.4%

* Based on consolidated accounts

** Profit for the financial year/shareholders' funds

*** Operating profit/fixed and current assets excluding investments

Note

Earnings per share for 1993 to 1996 inclusive have been adjusted pursuant to the sub-division of existing shares and the bonus issue of shares in 1997.

FORM OF PROXY

Highams Systems Services Group plc

I/We (block capitals please)

of (block capitals please)

being (a) member(s) of the above-named company, hereby appoint the Chairman of the Meeting*/(or)

.....

as my/our proxy for me/us on my/our behalf at the 14th Annual General Meeting of the company to be held at 11.30 am on Friday, 25 July 1997 and at any adjournment thereof.

*If it is desired to appoint another person as proxy, this should be deleted and the name of the proxy inserted.

This proxy to be used:

- | | | |
|---------------------|---|---------------|
| Resolution 1 | To re-appoint Mr DJ Drinan as a director of the company | *For/*Against |
| Resolution 2 | To re-appoint Mr NN Graham Maw as a director of the company | *For/*Against |
| Resolution 3 | To re-appoint Mr MA Eve as a director of the company | *For/*Against |
| Resolution 4 | To re-appoint Binder Hamlyn as auditors and authorise the directors to determine their remuneration | *For/*Against |

*Strike out whichever is not desired

Dated: 1997

Signature:

Notes:

1. If the appointor is a corporation, this form must be under its common seal and under the hand of some officer or attorney duly authorised in that behalf.
2. In the case of joint holders, the signature of any one holder will be sufficient but the names of all joint holders should be stated.
3. If this form is returned without any indication as to how the person appointed proxy shall vote, he/she will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.
4. The completion and return of this form of proxy will not preclude a member from attending and voting at the meeting should he/she so wish.
5. To be valid, this form must be completed and deposited at the registered office of the company not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.

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BUSINESS REPLY SERVICE
Licence No. CN 1413

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Highams Systems Services Group plc

Hammond House
34/45 Croydon Road
Caterham
SURREY
CR3 6BZ

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