

1700310

**H I G H A M S**  
SYSTEMS SERVICES GROUP PLC

HIGHAMS IS A SPECIALIST IT  
SYSTEMS SERVICES COMPANY  
PROVIDING RECRUITMENT,  
CONSULTANCY, APPLICATION  
SOFTWARE, SUPPORT AND  
DEVELOPMENT SERVICES

SPECIALISTS IN INSURANCE  
& FINANCIAL MARKETS

ANNUAL REPORT & ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 1998



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COMPANIES HOUSE 26/08/98

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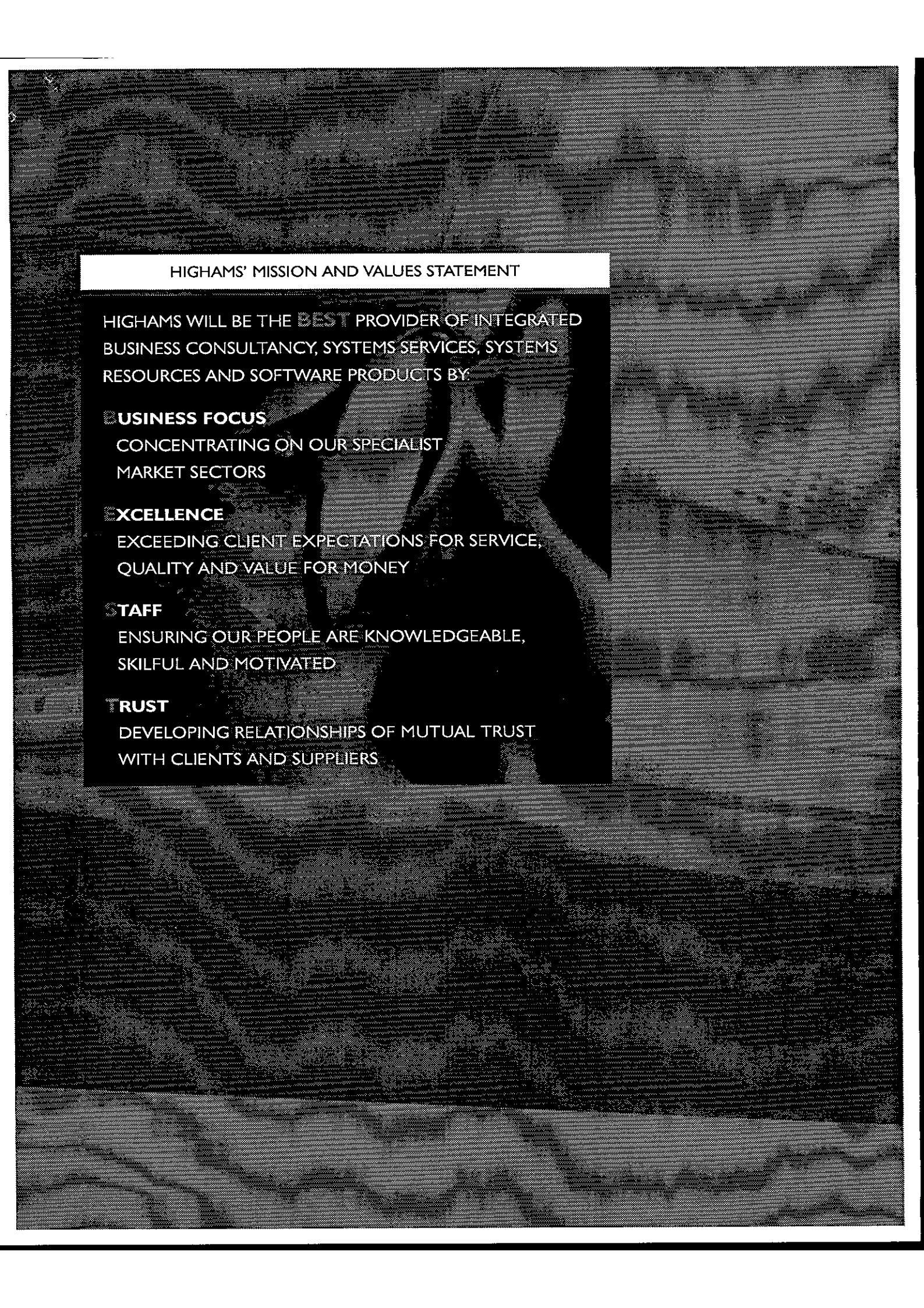
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FIVE YEAR RECORD



## HIGHAMS' MISSION AND VALUES STATEMENT

HIGHAMS WILL BE THE **BEST** PROVIDER OF INTEGRATED BUSINESS CONSULTANCY, SYSTEMS SERVICES, SYSTEMS RESOURCES AND SOFTWARE PRODUCTS BY:

**BUSINESS FOCUS**

CONCENTRATING ON OUR SPECIALIST MARKET SECTORS

**XCELLENCE**

EXCEEDING CLIENT EXPECTATIONS FOR SERVICE, QUALITY AND VALUE FOR MONEY

**STAFF**

ENSURING OUR PEOPLE ARE KNOWLEDGEABLE, SKILFUL AND MOTIVATED

**TRUST**

DEVELOPING RELATIONSHIPS OF MUTUAL TRUST WITH CLIENTS AND SUPPLIERS

## Operating Highlights

### RECRUITMENT SERVICES DIVISION

The number of contractors working at clients through our Recruitment Division increased 32% on year-end comparisons, (numbering 340 as at the year end)

The new contract recruitment business in the Netherlands is now fully operational and already profitable

Continued growth fuelled by Year 2000 and EMU with no sign of demand having peaked

### BUSINESS SOLUTIONS DIVISION

Successful completion of the installation and commissioning of a major new factoring system for Commonwealth Bank of Australia

Selection by two further factoring companies to install new systems

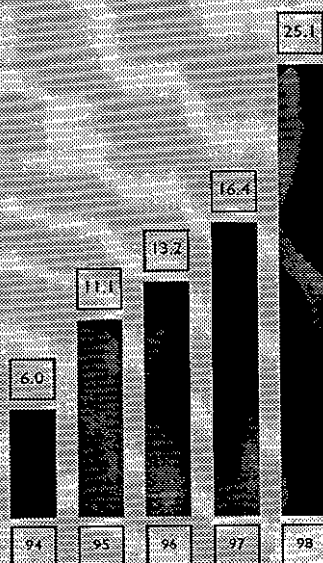
Turnover and profit in Business Solutions and Financial Systems (now merged) both increased

Another good start to the new financial year

## Financial Highlights

|                    | 1998<br>£'000 | 1997<br>£'000 | Increase<br>% |
|--------------------|---------------|---------------|---------------|
| Turnover           | 25,143        | 16,395        | 53            |
| Pre-Tax Profit     | 1,383         | 879           | 57            |
| Post Tax Profit    | 945           | 609           | 55            |
| Earnings per share | 5.34p         | 3.6p          | 48            |

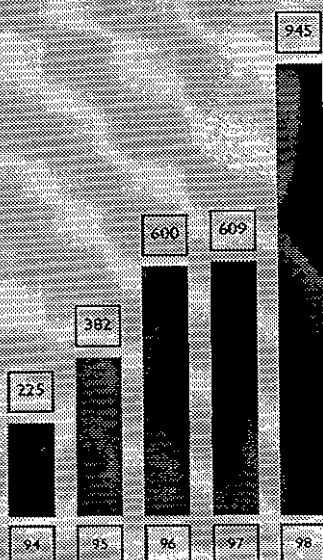
TURNOVER - £m



PRE-TAX PROFIT - £'000



POST TAX PROFIT - £'000



EARNINGS PER SHARE - pence\*



\* Adjusted for sub-division of existing shares and bonus issue

## Services and Markets

### RECRUITMENT SERVICES DIVISION

**HIGHAMS RECRUITMENT SERVICES** has experienced specialist IT recruitment consultants providing total recruitment solutions with expertise in the financial services market and other specialist market sectors. We have established many 'preferred supplier' and 'sole supplier' relationships providing services such as contract and permanent placements (individuals or teams), campaign management, agency management, as well as out-placements.

**HIGHAMS RECRUITMENT SERVICES (N.E.) LIMITED** is a subsidiary company which commenced operations towards the end of the financial year. Situated in The Hague it serves the Dutch and Northern European market. The company operates primarily in its specialist areas of insurance, banking and financial services and has already established preferred supplier relationships with some of the largest financial services groups in the Netherlands.

### BUSINESS SOLUTIONS DIVISION

**HIGHAMS BUSINESS SOLUTIONS** and Highams Financial Systems have merged and this combined entity provides an enhanced range of solutions covering Highams' software applications, such as Hi-Finance and Hi-Schemes, systems support, bespoke developments and business and IT consulting. We have specialists concentrating on emerging technologies in the areas of E-Commerce, client information systems and multiple channel selling.

## PRODUCTS AND SERVICES

Highams Systems Services Group offers a range of products and services which support its clients requirements; from software applications such as Hi-Finance and Hi-Schemes, to bridging the IT skills gap with the supply of skilled IT resources, and bespoke development of client-specific projects through integrated business and IT consulting.

## MARKETS

A rapidly expanding company, Highams Systems Services Group operates principally within its niche markets, insurance, banking and financial services. Highams' partnerships with IBM, Oracle and Microsoft, enable us to offer our clients total business solutions throughout the UK and, increasingly, world-wide.

## KEY STRENGTHS

A professional workforce with niche IT and financial specialists focusing primarily on the insurance, banking and financial services markets, enables Highams to offer a comprehensive range of integrated services from a proven management team to serve our clients. Highams' solid reputation has been achieved through IT and market focus and has rewarded us with a superb client base.

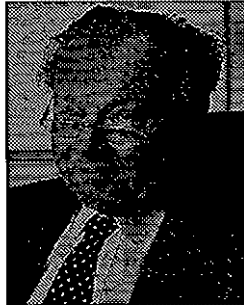
## Chairman's Statement

### HIGHAMS' CLIENTS

#### Insurance

Avro Levensverzekeringen NV  
 Abbey Life Assurance  
 Abbey National Insurance Services  
 AIG Europe (UK)  
 AXA Equity & Law  
 AXA Provincial Insurance  
 Barclays Insurance Services  
 Barclays Life Assurance  
 Black Horse Financial Services  
 Century Life  
 Clerical Medical  
 Commercial Union Assurance  
 Consolidated Financial Assurance  
 Cornhill Insurance  
 Eagle Star Insurance  
 Equitas Management Holdings  
 ERC Frankona Re  
 GA Life Assurance  
 Gerling Global General & Reinsurance Co  
 Greystoke Legal Services  
 Hamilton Barr Insurance Brokers  
 Independent Insurance  
 ING Groep  
 Insurance Trading Exchange  
 IRISC London  
 Iron Trades Insurance  
 Legal & General  
 Linnet  
 Liverpool Victoria Friendly Society  
 Lloyd's of London  
 Lloyds TSB Group Insurance Brokers  
 Lombard General Insurance  
 Manchester Unity Friendly Society  
 Marsh Financial Management

↓



I am delighted and proud to be able to present to shareholders such good figures and such an optimistic account of our achievements to date and for the future.

**Overall Financial Results** Profits for the year, pre-tax, were £1,383,327 on turnover of £25,143,421 (year to 31st March 1997: pre-tax profits of £878,707 on turnover of £16,394,589).

All of this growth was organic. As last year, we had a good second half, which indicates well for the future.

I am naturally pleased to see the increasing performance of the existing operations, all of which increased turnover and profit. We further increased the number of contractors working at clients.

During the year we took the decision to merge the two systems divisions of the company into one operation. The fundamental rationale behind this is to combine the complementary strengths from which it can continue to prosper.

**Share Capital and Dividend** At an Extraordinary General Meeting of the members of the company held on 13th March 1998, a "One for One" Scrip Issue was effected by capitalising share premium account and reserves, thus doubling the number of Ordinary Shares of 5p in issue, to bring our share capital more into line with the value of the net assets utilised in the business and to help to satisfy market demand for our shares.

The directors recommend the payment of a final dividend of 1p per ordinary share. Whilst it is not the Board's ambition that Highams' shares be regarded as an income stock, the directors believe that payment of a well-covered final dividend is an appropriate reflection of their confidence in the ability of the company to continue to generate future profits on its path of expansion, and provides a modest income participation in profits for shareholders which the Board believes they will welcome.

It is proposed to give shareholders the option of receiving the final dividend in the form of shares rather than cash and I refer to my letter of 30th June 1998 which is being sent to shareholders with

these accounts, which explains the operation of the share dividend alternative scheme. Since some of the directors intend to avail themselves of this option, the cost of the dividend to the company, in cash terms, will be approximately £75,000. Part of the business of the AGM will be to approve the scheme.

**Executives and Staff** Once again, I take the opportunity of thanking our growing team of expert and hard working staff at all levels for their essential contribution to the success of Highams. That they show such a team spirit of fun and friendship in their close involvement with and devotion to the Highams culture is in large measure thanks to the firm but friendly leadership of our two executive directors, John Higham and Ted Andrews.

During the year we granted options of 98,000 shares to staff under the rules of the existing Executive Share Option Scheme. Share options can be exercised subject to a minimum compound increase in EPS of 20% p.a. over 3 years. I am pleased to say that last year, which was the first year of the scheme, we exceeded the minimum criteria. All staff with two or more years' service at the scheme anniversary now have share options.

This year I should pay tribute to Denis Drinan who, last December, made the transition he himself had for some time sought, from being a full-time executive director, to joining me as a Highams non-executive director. Denis is a founder shareholder of Highams, having joined the business soon after its formation. Denis accepted my invitation to stay on the Board as a non-executive director for a period so as to give us continued access to his wide IT systems experience.

During the year we formed Highams Recruitment Services (N.E.) Ltd to handle our new operation in Northern Europe. The board of the new company is composed of two of our executive general managers, Chris Northam and Clive Williams along with the country manager, Harro Elsborg, and Ted Andrews as Chairman.

Bryan Martin has been appointed to the Highams Board. Bryan joined Highams in 1992 and subsequently became General Manager of Financial Systems division. He recently achieved his MBA. We congratulate him, and I look forward to our discussions at Board level being further enhanced by his imagination and experience. He is a skilled and experienced manager. It will be for shareholders, at the

Merlin Financial Consultants  
Midland Financial Services  
Municipal Mutual Insurance  
National Australia Group UK

Natwest Life

Norwich Union

NPI

Prudential Assurance

Royal Sun Alliance

Sun Life of Canada

Sphere Drake

Teachers Assurance

UIA (Insurance)

United Friendly Assurance

Watson Wyatt Worldwide

Woolwich Life

Willis Corroon Group

Winterthur Life

Zurich Re (UK)

Zurich Insurance

#### Banking & Financial Services

Abbey National

Aston Rothbury Factors

Barclays Funds

Barclays ShareSave

Banque Paribas

Britannia Building Society

Citibank International

Commonwealth Bank of Australia

De Lage Landen International BV

Fidelity Investment Services

FMN Finance House

Gartmore Investment Management

GLE Invoice Finance

Greater London Enterprises

Halifax



## HIGHAMS' CLIENTS

Hambros Bank  
 Kellock International  
 Lombard North Central  
 Metropolitan Factors  
 Midland Bank  
 Mercury Asset Management  
 Nationwide Building Society  
 Newton Investment Management  
 NM Rothschild & Sons  
 Postbank Verzekeringen  
 Singer & Friedlander Factors  
  
 Non - Financial Services  
 Anite Systems Systems  
 CapVolmac  
 CSC Continuum  
 Ernst & Young  
 FI Group  
 ICL  
 IBM  
 IBM Insurance Services  
 Irdeto  
 ITnet  
 IBM Huon Solutions  
 Microsoft  
 National House Building Council  
 News Digital Systems  
 Pharos International  
 Pilat  
 PMS Creative  
 PRT Group Inc  
 Reuters  
 Sussex Enterprise  
 Testcom  
 TrueForm Engineering  
 Unisys

forthcoming AGM, to vote on a resolution for his re-election. I warmly commend him to you, and ask you to support the resolution.

**Outlook and Current Trading** All our increase in turnover and profit has been derived from organic growth.

We continued our search for acquisitions of complementary businesses which could usefully be added to our existing activities. During the year under review, we evaluated six companies, but decided not to proceed to a conclusion with any of them - either as a result of what we discovered during the course of preliminary due diligence, or because the asking price was, or became during the course of negotiations, unrealistically high in relation to the expectation for future profitability of the business concerned. Thanks to the historical and prospective rate of our own organic growth, we are in the happy position of being able to be selective and not having to buy at any price. In evaluating potential acquisitions, we look for businesses which will fit into our commercial and cultural approach, which are in sufficiently adjacent areas of activity for us to be able to add value, and which hold out the promise of an early enhancement of our Earnings Per Share.

In particular we seek to acquire a complementary IT Training company as part of the strategy of "bridging the IT skills gap".

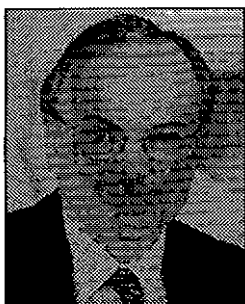
The current year has started well. Not only do we have a record number of contractors at clients but also our combined Business Solutions division is attracting new business.

I look forward to reporting continued good progress at the announcement of our interim results.

*Nigel Graham Maw*

Nigel Graham Maw Chairman  
30 June 1998

## Chief Executive's Report



I am pleased to report that Highams has had an excellent year overall and has again exceeded both its budgets and market forecasts for the year. The increase in sales in both operating divisions was in excess of 50%, comfortably exceeding targets.

Demand for our systems services has continued to increase, driven by new clients, new technologies, the need for flexible resourcing, Year 2000 and EMU work.

We continue to distinguish ourselves from the competition by adding value to clients in niche markets. 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 addition, we are also entering new specialist niche markets where there is a good business case for doing so.

During the year we again expanded our premises and recruited new staff to meet the demand from our markets. Further, such expansion will continue during 1998/9, together with investment in new systems in Recruitment Services and new technologies in the recently merged Business Solutions division.

### Trading Review

**Recruitment Services** This is still the largest trading division; it provides skilled contract and permanent IT personnel for a range of blue-chip banking and insurance industry clients.

Its prime business lies in the selection and placement of IT contractors to satisfy the particular project needs of clients. This can vary from a few weeks to a number of months.

The division again saw strong growth with the number of contractors on site increasing 32% on year end comparisons. Turnover and profit both increased, producing operating profits of £2.4m on turnover of £22m.

Our operations in Holland are now on a formal footing and are conducted through a new UK company. Preliminary results indicate that this will prove to be a profitable and growing extension to our activities.

### CASE STUDY I



Scottish Provident UK is a respected major Life Assurance company whose head office is in St Andrews Square, Edinburgh. The company was founded in 1837 and employs approximately 1200 staff.

Early in 1997 Scottish Provident embarked on a major business change programme. Interim IT Executive, Les Sumner, was responsible for leading the re-engineering project which aimed at matching Scottish Provident's business processes and systems to the new business strategies.

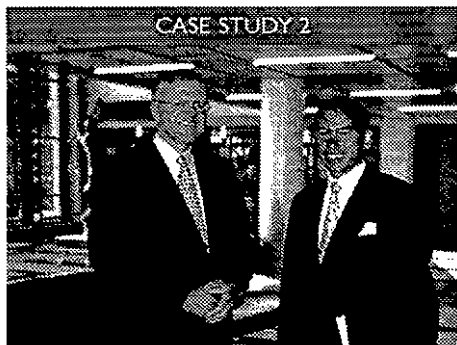
Traditionally, the company sold standard Life and Pensions products administered on a contract basis. Customer Servicing was paper based and a number of business processes (pre-sales quotations and new business for instance) were de-centralised. Scottish Provident wish to move to more flexible "protection menu" type products, administered on an individual customer basis over the telephone, and from fewer servicing centres. To achieve this, redesigned business processes and new systems solutions had to be devised to support the new business strategies.

Highams Business Solutions provided consultancy support to a multi-disciplinary team, re-engineering the business to meet the new strategy requirements. Highams' staff focused on assisting in the choice of new core processing systems and in the quality control of the system selection process. Techniques from Highams' business process improvement methodology were tailored to provide a structured approach to the business systems requirements gathering in the key sales and marketing area, against aggressive time scales.

The resulting business and systems solutions are in the forefront of current UK Life Office strategic thinking.

Working closely with Scottish Provident staff, Highams brought a wealth of experience and industry understanding to this key project. This enabled the rapid and effective development of new business architectures, systems strategies (and their supporting business cases) which are currently being implemented with continuing Highams Business Solutions support.

## CASE STUDY 2



Fred de Smeth, IT Manager (left) with Harro Elsborg, Highams' Country Manager.

Postbank Verzekeringen is part of the ING Groep which is the largest financial organisation in the Netherlands, with offices around the globe.

In 1992 Postbank Verzekeringen made a strategic decision to use the Life/400® and the Policy/400® applications from Continuum for their back-office operations.

Computer systems in the insurance market are under great pressure to keep up with innovations of new products and developments and Postbank Verzekeringen found that the skills required to implement the Life/400® and Policy/400® systems were hard to find.

Highams Recruitment Services (N.E.) Limited, based in The Hague, delivered the right skill sets for these systems to help the company achieve its aim to implement their projects. Fred de Smeth, IT Manager at Postbank Verzekeringen, states: "Highams came on board just at the right time, when we needed them most and others were unable to help. They were able to provide the right skills, at the right time and having an office in the Netherlands made it very convenient and easy to communicate with them, enabling me to deliver my business projects."

We further increased our volume of placements of IT contractors in the UK and overseas, and at the end of the year we had over 340 on site either at clients or working on our own systems activities. Sales from permanent placements doubled to almost £400k. Holway forecasts UK demand for IT contractors to double between 1997 and 2001; I see no reason why we should not continue to outperform the industry forecasts, based on our policy of concentrating on the financial and insurance sectors whose particular requirements we know so well, and our long term preferred arrangements with blue chip clients. We have seen no evidence of the recruitment market having "peaked", far from it.

Although skills shortages continue to have the effect of increasing the rates we have to pay, they also have the inevitable effect of increasing what the end user has to pay us, thus protecting what would otherwise be an unacceptable erosion of margins. We have largely maintained our gross margin and secured new preferred supplier arrangements with blue-chip clients which will make a significant contribution to revenue and profit in this financial year.

The proximity of Year 2000, the impact of EMU as well as constant change in our key markets continue to strengthen our confidence in further profitable growth to come for our Recruitment Services division.

We are introducing new systems which will help to minimise our increasing administrative burden. We have recruited new high quality sales and support staff and we will continue to do so this current year.

**Business Solutions** During the year it was decided to merge the operations of our two systems activities (bespoke software based on Microsoft technologies and package software for factoring companies) into one combined entity to be known as Business Solutions.

This is because we identified several areas of synergy between the Business Solutions and Financial Systems divisions and our analysis showed that combining forces would lead to a more focused and efficient service for our clients. We are working on several projects including a common technical environment for both factoring and bespoke developments, as well as developing e-commerce and Internet solutions.

Both the former divisions are specialists in niche markets - banking, finance and insurance, and both are software houses. The fusion is the ideal solution - and will facilitate further growth of Highams as a provider of integrated business consultancy, systems services, resources and software products in the financial services market in the UK and, increasingly, worldwide. Our staff will also benefit from increased career and training opportunities that the integration will offer.

It will also result in increased efficiency from co-ordination of tasks, merged sales teams and shared management resources. The divisions already share a common culture and will benefit from increased critical mass and shared strengths, meeting our mission of enhancing the competitiveness of our clients in financial markets.

Turnover in the combined division grew 56% over the previous year with profits up by 80%.

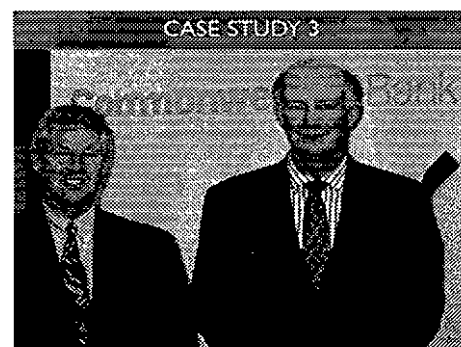
**Factoring Software** We are already benefiting from the knock-on effects of having, last year, successfully set up and commissioned a major new factoring system for the Commonwealth Bank of Australia.

We are now implementing the system for a major European bank in four European countries, and have completed an installation for a start-up UK client. We have continued to enhance the functional and technical attributes of the system, and have considerably expanded staff numbers to cope with the increased demand for implementation, support and development services.

There is an active global prospect list for the system over the next year, since the success of the system has generated increasing interest from asset based finance companies, both large and small, and we are confident that this will turn into future solid business.

**Bespoke Software** We have continued to develop bespoke systems solutions based on Microsoft technologies for influential blue-chip clients. We have also become an Oracle alliance partner.

We are undertaking an increasing number of process redesign and strategic consultancy assignments in our core markets and we have been marketing our new Insurance Broker Schemes system (Hi-Schemes).



*David Sullivan Senior Manager, Credit (left) with Peter Case Chief Manager, Commonwealth Factors.*

Commonwealth Bank of Australia (CBA), whose head-office is in Sydney, is one of Australia's 'big four' banks. Traditionally, their business portfolio did not include factoring but in 1997 CBA took the strategic decision to launch a subsidiary to enter the factoring market.

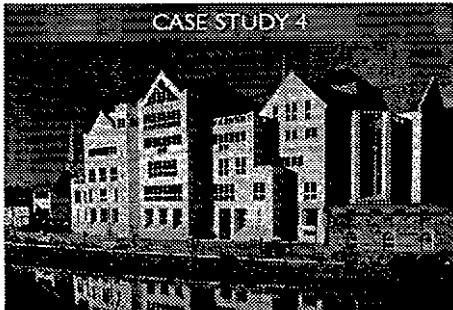
CBA's intention was to rapidly establish themselves as a leading player in the factoring business in Australia. The bank looked for a partner who well understood the support needs of a major new operation and Highams Financial Systems was chosen to help CBA meet their objectives through a planned period of rapid expansion.

The Highams Factoring System (Hi-Finance) is installed and supported at a range of clients, varying from small domestic factors to major multi-national organisations. Our flexibility and capability will support Commonwealth Factors from its 'start-up' position to market leadership.

A partnership approach by Highams and CBA combined experience and industry knowledge of the business and the technology with CBA's goals for the future. This partnership achieved rapid and effective implementation of Highams' Factoring System and the service is being rolled out around Australia (and New Zealand), making very effective use of the bank's business centres and its existing network infrastructure. CBA's clients in manufacturing, wholesale, and business services will benefit greatly from the bank's full range of factoring services and related invoice discounting.

Commonwealth Factors successfully started trading with the Hi-Finance system on 22nd September 1997 with a high-profile \$3 billion launch.

#### CASE STUDY 4



GA Life headquarters in York.

GA Life, a leading UK Pensions, Life Assurance and Investment company who has recently merged with Commercial Union, has its headquarters in York. The company has total funds under management of more than £19 billion and a broad distribution base through Independent Financial Advisors, direct sales and partnerships.

In May 1997, GA Life had a requirement for a minimum of 20 contractors with specialist skills to effect system changes to comply with the Year 2000. Eleven contractors were required at their site in York and nine contractors in Stevenage.

GA Life awarded Highams a £3m 'preferred supplier' contract for the specialist skills they required, spanning a 2-year period. Highams' specialist knowledge in the insurance and financial services market, coupled with an accurate database and networking skills, enabled us to provide the right skills at the right time.

Using Highams' additional resources to concentrate on making their systems Year 2000 compliant enabled GA Life to continue using their existing IT personnel for their strategic business plans and in-house development programmes, ensuring that the company remained competitive in its market.

With the objective of lessening dependency on one particular software vendor, our future strategy is to adopt further software technologies, in common with our factoring software, and we plan to finalise this during the current year.

The UK market for applications software is forecast to expand at over 9% per annum to 2001 (source: IDC). We foresee substantial expansion in UK and global markets in the future.

Our systems activities represent an important part of our strategy as part of our multi-faceted systems services group.

Staff I would like to reiterate the Chairman's thanks to the dedicated team of staff which Highams employs without whom we could not progress forward. We strive to recognise and reward the team contribution and achievements; during the year we extended our share option scheme, introduced a retention scheme aimed at recognising the importance of permanent technical staff and significantly improved the benefits package for all staff. These measures were well received by our existing staff and will improve our ability to attract vital new staff to support our plans.

Prospects Our markets continually require flexible systems resources to react rapidly to new technology and competition. This need has fuelled the demand for IT contractors and software solutions as well as systems changes as a result of the well publicised Year 2000 date change and we have yet to feel the full impact of systems changes upon our markets arising from EMU; all this continues to bode well for the foreseeable future.

The trend towards IT outsourcing is forecast (source: Holway) to continue to expand by 21% p.a. over the next 3 years. The increasing IT skills gap means that there are opportunities to provide additional ways of supplying our clients' needs. We will seek to develop new initiatives to add value to the existing services consistent with our strategy.

We are continually seeking additional high quality staff and we are expanding our premises to facilitate our future plans. We look forward to the future with enthusiasm.

John Higham Chief Executive  
30 June 1998

## Directors

**Nigel Newton Graham Maw**

*MA LLM (Cantab) (aged 64) Non-Executive Chairman*

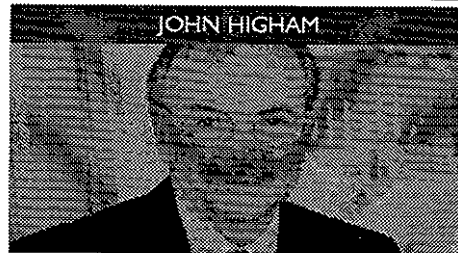
Nigel Graham Maw was, until April 1993, Senior Partner of Rowe & Maw, Solicitors. He is the principal co-author of "Maw on Corporate Governance" and is also special visiting professor to the Department of Law at Nottingham University. He was formerly Deputy Chairman and then Chairman of Decca Limited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



**John Edward Higham**

*ACII (aged 53) Chief Executive and Deputy Chairman*

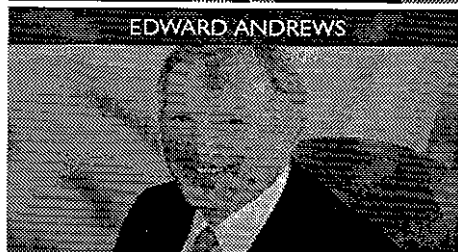
John Higham started his career in insurance in various technical and business capacities and gained in-depth experience of the London insurance market, life and general insurance. He joined Lonsdale Systems Limited in 1977 where he spent 6 years implementing packaged financial software before founding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



**Edward Ian Andrews**

*(aged 46) Executive Director*

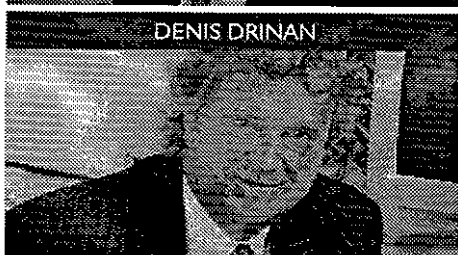
Ted Andrews has been a director of Highams since joining the company in November 1983. Before joining Highams he spent 7 years at Lonsdale Systems Limited implementing insurance software projects in a variety of technical and management capacities and 5 years at Noble Lowndes & Partners as a programmer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



**Denis John Drinan**

*(aged 52) Non-Executive Director*

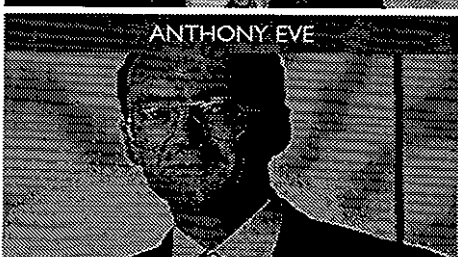
Denis Drinan has 29 years experience in IT. He has been a director of Highams since November 1983 and was responsible for the Business Solutions division until December 1997 when he became a non-executive director.



**Maurice Anthony Eve**

*FCA (aged 44) 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 Coulsdon and specialising in tax and business advice. He has acted as Highams' financial consultant for the last 6 years, and commits as much time as is necessary to fulfil his responsibilities as Finance Director.



**Bryan John Martin**

*MBA (aged 42) Executive Director*

Bryan Martin has over 20 years experience in the IT industry. He started his career with American Express in the mid-70's. Moving to John Wiley (publishers) in 1979 he undertook a number of international assignments. He was appointed European IT manager of Security Pacific Bank in 1988 and since 1992 has managed the development of the highly acclaimed factoring software within Highams. He recently completed his MBA and became an executive director in June 1998.



## Directors and Officers

### Directors

NN Graham Maw, (*Non-executive Chairman*)

JE Higham, (*Chief Executive*)

EI Andrews

DJ Drinan, (*Non-executive*)

MA Eve, (*Finance Director*)

BJ Martin

### Secretary

MA Eve

### Registered Office

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

### Registrars

IRG plc  
Balfour House  
390/398 High Road  
Ilford  
Essex  
IG1 1NG

### Auditors

Arthur Andersen  
17 Lansdowne Road  
Croydon  
CR9 2PL

### Nominated Adviser and Broker

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

### Bankers

Barclays Bank Plc  
PO Box 112  
Horsham  
West Sussex  
RH12 1YQ

### Solicitors

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

### Registered number

1700310

## Directors' Report

The directors present their report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 March 1998.

**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 of 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 both turnover and profits further improved on the previous year. Turnover for the year increased from £16.4m to £25.1m. The profit for the year before taxation was £1,383,327 (1997: £878,707) and the profit after taxation was £945,088 (1997: £609,117).

As noted in the Chairman's statement, the directors recommend a final dividend of 1p per share (1997: £nil). No interim dividend was paid during the year (1997: £nil). It is proposed to invite shareholders to approve the adoption by the company of a Share Dividend Alternative Scheme so that shareholders will be able, if they so wish, to take some or all of their dividend entitlement in the form of new ordinary shares instead of cash. Certain of the directors propose to do so in respect of their own beneficial dividend entitlement as a result of which the cash cost to the company (ignoring Advance Corporation Tax) of paying the proposed final dividend will fall from £177,000 to approximately £75,000.

**Directors** The directors of the company are set out on page 13. All served throughout the year except for Mr BJ Martin who was appointed to the board on 10 June 1998.

In accordance with the company's Articles of Association, Mr JE Higham retires by rotation and offers himself for re-election. Mr BJ Martin also offers himself for re-election. Biographical details for both are provided on page 13.

**Directors' interests in shares** The persons who held the office of director at 31 March 1998 had the following interests in the ordinary 5p shares of the company at the beginning and end of the financial year:

| Number fully paid | 31 March<br>1998 | 1 April<br>1997 |
|-------------------|------------------|-----------------|
| NN Graham Maw     | 47,000           | 10,400          |
| JE Higham         | 8,535,000        | 4,670,000       |
| EI Andrews        | 3,400,000        | 1,700,000       |
| DJ Drinan         | 2,265,000        | 1,560,000       |
| MA Eve            | 43,000           | 14,000          |

Notes:

The balances as at 31 March 1998 are recorded after the bonus issue.

1 JE Higham's interest includes 200,000 shares held by his wife and 1,230,000 shares held by The John Higham Family Trust.

2 DJ Drinan's interest includes 193,400 shares held by his wife and 200,000 shares held by The Drinan Trust (1996).

3 MA Eve has further non-beneficial interests in the 1,430,000 shares in aggregate held by The John Higham Family Trust and by The Drinan Trust (1996) of which he is a trustee.

None of the directors who held office during the year held options over shares in the company. BJ Martin, who was appointed after the year end, has options over 14,000 shares in the Inland Revenue approved Executive Share Option Scheme and 160,000 shares in the un-approved Employee Share Option Scheme.

The Highams Systems Services Group Employee Share Benefit Trust, of which JE Higham, EI Andrews, DJ Drinan and MA Eve are trustees, holds 112,000 ordinary shares.

The following changes took place in the interests of directors between 31 March 1998 and 17 June 1998:

MA Eve transferred 28,000 shares to his wife. JE Higham and DJ Drinan each sold 50,000 shares.

**Increase in share capital** As a result of the resolutions relating to the "one for one" scrip issue passed by shareholders at the Extraordinary General Meeting of the company held on 13 March 1998, £442,500 of the company's reserves (being the share premium account of £203,863, the capital redemption reserve of £8,500 and the balance of £230,137 being part of the accumulated revenue reserves) were capitalised and applied in paying up in full at par 8,850,000 new ordinary shares of 5p each. These were distributed to shareholders in the proportion of one new ordinary share for each ordinary share then held.

**Share option schemes** The company adopted an Inland Revenue approved Executive Share Option Scheme on 17 May 1996. On 27 June 1997, options over a total of 49,000 shares were granted to employees at an exercise price of £1.25. Following the subsequent bonus issue of shares, the number of shares has increased to 98,000 at an exercise price of 62.5p. Exercise of these options is conditional on increases in earnings per share by at least 20% p.a. compound over a minimum period of three years.

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. Following the sub-division of the £1 ordinary shares into 5p ordinary shares in 1996 and subsequent bonus share issues, the number of options held has varied. Each option holder now has options over 400 ordinary shares for every option over an ordinary share of £1 previously held and the revised subscription price is now 10p per ordinary share. The total number of shares under option under this scheme at 31 March 1998 was 880,000.

Further information is given in note 20 to the accounts.

**Corporate governance** The directors report on pages 18 to 20 upon the extent to which the company already observes and complies with "Principles of Corporate Governance and the Code of Best Practice" published in draft in March 1998 and proposed to be included in the listing rules of the London Stock Exchange for fully listed companies. This is particularly appropriate since the directors will be considering towards the end of the 1998/99 financial year the timing of an application to the London Stock Exchange for a full listing.

**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 regard 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 figure at 31 March 1998 was 24 (1997: 33).

**Liability insurance for Company Officers** The company has maintained insurance cover for the directors against liability arising from negligence, default, breach of duty and breach of trust in relation to the company.

**Year 2000 Compliance** The company is well advanced in its preparation for processing considerations arising from "Year 2000" and is not anticipating any internal disruption to its systems.

**Charitable and political donations** During the year, the company made charitable donations of £250 (1997: £30). There were no political donations.

**Auditors** In 1994, Binder Hamlyn became part of the Arthur Andersen organisation. Since the last annual general meeting, the directors have appointed Arthur Andersen as the company's auditors. A resolution to appoint Arthur Andersen as auditors will be proposed at the Annual General Meeting.

This report was approved by the Board of Directors on 26 June 1998.

  
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.

## Statement of Corporate Governance

The Board is committed to high standards of corporate governance so that the company's management procedures are transparent and clearly understood by those who work within the company, and by those who invest in it.

The Board The aim of the Board is to function at the head of the company's management structures, leading and controlling its activities and setting a strategy for enhancing shareholder value.

The directors are aware of their responsibility to exercise an independent judgement on all matters and can take independent advice at the company's expense up to a reasonable amount. There is also a procedure for new appointees to the main Board to receive, following appointment, appropriate training.

The Board currently consists of four executive directors and two non-executive directors. Thus, NEDs "comprise not less than one third of the Board" which complies with the code.

## Statement of Corporate Governance

The company does not have a Nomination Committee as such; the Board collectively undertakes the functions of such a committee.

**The Chairman and the Chief Executive** These two key tasks are carried out by two different individuals. They have a clear understanding as to the split of responsibilities between them, and they meet regularly on a one-to-one basis so that each is aware of the ideas and actions of the other. The company has not identified a "senior independent director", other than the Chairman, and the company does not comply with this proposed provision of the code, and considers that it serves no useful purpose.

**Internal control** The Board has overall responsibility for ensuring that the group maintains systems and internal financial controls that provide them with reasonable assurance regarding the financial information both for use within the business and for external publication, and that the assets are safeguarded.

There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control system are:

- an organisational structure that has clear lines of responsibility supported by regular communication between the executive board members;
- a schedule of matters reserved for Board level decisions, thus ensuring that it maintains effective control over appropriate strategies, financial and organisational issues;
- a financial reporting and information system that enables progress against budget to be tracked monthly and variances to be investigated;
- a system of detailed financial controls, closely monitored by the executive directors and senior management, that includes approval limits for all ordering and expenditure;
- regular analysis of likely future cash flows, to ensure that the company has adequate funds and resources over the foreseeable future, and daily cash balances, to ensure that the most effective use is made of available funds.

**Audit Committee** The Board has an established Audit Committee comprising the Chairman, Ted Andrews and Denis Drinan.

The terms of reference for the Audit Committee are to assist the Board in the discharge of its responsibilities for corporate governance, financial reporting and internal control. Its duties include maintaining an appropriate relationship with the company's auditors, keeping under review the scope and results of the audit and its effectiveness.

## Statement of Corporate Governance

**The Remuneration Committee** This committee, which meets formally at least three times a year, consists of the Chairman, Chief Executive and Finance Director. When discussing the remuneration of any one of those three, the particular individual being discussed absents himself from the discussion and plays no part in it.

The three full-time executive directors receive a basic annual salary plus other usual benefits. In addition, there is a performance related bonus, up to a maximum of 50% of basic salary. The committee sets these packages by the need to reward the directors appropriately and by reference to the need to continue to attract and retain high quality individuals. Tony Eve, the fourth executive director, is paid on a daily basis and is not eligible for participation in any pension, life or health benefits or in any bonus or share options.

The non-executive directors are paid an annual fee only, and are not eligible for participation in any pension, life or health benefits or in any bonus or share option schemes. The annual level of fees for each of the NEDs is reviewed by the executive directors annually after the AGM.

The three full-time directors each has a service agreement terminable by either party by not less than six months' notice; the finance director's position is terminable by three months' notice; the NEDs' respective appointments are terminable at any time without compensation by the company in general meeting.

Share options have been granted to one executive director, details of which are set out in the directors' report on page 16.

**Going concern** After making appropriate enquiries, the directors consider that the company 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.

**Compliance with best practice** Other than in the few respects specifically mentioned above, which the Board considers insignificant particularly for a company of its size, the Board considers that the company was in compliance throughout the financial year ended 31 March 1998 with the proposed draft "Principles of Good Governance and Code of Best Practice" published in March 1998.

The Board encourages the shareholders to use the opportunity provided by the general meetings of the company, as a forum for dialogue and discussion with the directors, both on corporate governance matters and on the Board objectives for the future development of the company.

## Auditors' Report

To the shareholders of Highams Systems Services Group plc

We have audited the accounts on pages 22 to 34 which have been prepared under the historical cost convention and the accounting policies set out on page 25.

**Respective responsibilities of directors and auditors** As described on page 18, 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.

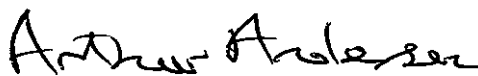
**Opinion** In our opinion the accounts give a true and fair view of the company's state of affairs at 31 March 1998 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Chartered Accountants and Registered Auditors

Croydon

26 June 1998



**Profit & Loss Account**  
for the year ended 31 March 1998

|                                               | Notes | 1998<br>£        | 1997<br>£    |
|-----------------------------------------------|-------|------------------|--------------|
| Turnover                                      | 2     | 25,143,421       | 16,394,589   |
| Cost of sales                                 |       | (21,843,114)     | (14,134,354) |
| Gross profit                                  |       | 3,300,307        | 2,260,235    |
| Administrative expenses                       |       | (1,918,798)      | (1,390,020)  |
| Operating profit                              | 3     | <b>1,381,509</b> | 870,215      |
| Interest receivable                           | 4a    | 4,856            | 8,860        |
| Interest payable                              | 4b    | (3,038)          | (368)        |
| Profit on ordinary activities before taxation |       | <b>1,383,327</b> | 878,707      |
| Tax on profit on ordinary activities          | 7     | (438,239)        | (269,590)    |
| Profit for the financial year                 |       | <b>945,088</b>   | 609,117      |
| Dividends                                     | 8     | (177,000)        | -            |
| Retained profit for the year                  | 16    | <b>768,088</b>   | 609,117      |
| Earnings per share                            |       |                  |              |
| - Basic with 1997 restated due to bonus issue | 9     | <b>5.34p</b>     | 3.60p        |
| - Fully diluted                               | 9     | <b>5.08p</b>     | -            |

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

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

# Balance Sheet

31 March 1998

|                                                | Notes | 1998<br>£   | 1997<br>£   |
|------------------------------------------------|-------|-------------|-------------|
| <b>Fixed assets</b>                            |       |             |             |
| Tangible assets                                | 10    | 239,452     | 161,998     |
| Investments                                    | 11    | 40,328      | 40,326      |
|                                                |       | 279,780     | 202,324     |
| <b>Current assets</b>                          |       |             |             |
| Debtors                                        | 12    | 4,875,216   | 3,859,507   |
| Cash at bank and in hand                       | 18    | 661,023     | 414,785     |
|                                                |       | 5,536,239   | 4,274,292   |
| Creditors: amounts falling due within one year | 13    | (2,558,069) | (1,988,854) |
| <b>Net current assets</b>                      |       | 2,978,170   | 2,285,438   |
| <b>Total assets less current liabilities</b>   |       | 3,257,950   | 2,487,762   |
| <b>Provisions for liabilities and charges</b>  |       |             |             |
| Deferred taxation                              | 14    | (18,600)    | (16,500)    |
| <b>Net assets</b>                              |       | 3,239,350   | 2,471,262   |
| <b>Capital and reserves</b>                    |       |             |             |
| Called up share capital                        | 15    | 885,000     | 442,500     |
| Share premium                                  | 16    | -           | 203,863     |
| Capital redemption reserve                     | 16    | -           | 8,500       |
| Profit and loss account                        | 16    | 2,354,350   | 1,816,399   |
| <b>Equity shareholders' funds</b>              | 17    | 3,239,350   | 2,471,262   |

The accounts on pages 22 to 34 were approved by the Board of Directors on 26 June 1998.

NN Graham Maw & JE Higham, Directors

*NN Graham Maw* *JE Higham*

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

# Cash Flow Statement

for the year ended 31 March 1998

|                                                                                   | Notes | 1998<br>£   | 1997<br>£   |
|-----------------------------------------------------------------------------------|-------|-------------|-------------|
| Reconciliation of operating profit to<br>net cash flow from operating activities  |       |             |             |
| Operating profit                                                                  |       | 1,381,509   | 870,215     |
| Depreciation                                                                      |       | 91,252      | 71,963      |
| Increase in debtors                                                               |       | (1,015,709) | (1,454,860) |
| Increase in creditors                                                             |       | 228,343     | 301,379     |
| (Profit)/loss on disposal of fixed assets                                         |       | 2,958       | (473)       |
| Net cash inflow/(outflow) from operating activities                               |       | 688,353     | (211,776)   |
| Net cash inflow/(outflow) from operating activities                               |       | 688,353     | (211,776)   |
| Returns on investments and servicing of finance                                   |       |             |             |
| Interest received                                                                 |       | 4,856       | 8,860       |
| Interest paid                                                                     |       | (3,038)     | (368)       |
| Net cash inflow                                                                   |       | 1,818       | 8,492       |
| Taxation                                                                          |       |             |             |
| UK corporation tax paid                                                           |       | (289,799)   | (262,381)   |
| Capital expenditure and financial investment                                      |       |             |             |
| Investment in subsidiary                                                          |       | (2)         | -           |
| Purchase of tangible fixed assets                                                 |       | (194,187)   | (145,312)   |
| Purchase of own shares                                                            |       | -           | (40,320)    |
| Proceeds on disposal of tangible fixed assets                                     |       | 22,523      | 18,750      |
| Net cash outflow                                                                  |       | (171,666)   | (166,882)   |
| Equity dividends paid                                                             |       | -           | -           |
| Net cash inflow/(outflow) before management<br>of liquid resources and financing  |       | 228,706     | (632,547)   |
| Financing                                                                         |       |             |             |
| Issue of new ordinary shares (including share premium<br>net of associated costs) |       | -           | (231,363)   |
| Increase/(decrease) in cash in the year                                           | 18    | 228,706     | (401,184)   |
|                                                                                   |       | 228,706     | (632,547)   |

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

## Notes to the Accounts

for the year ended 31 March 1998

### 1 Accounting policies

#### Accounting convention

The accounts have been 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:

|                                          |                                       |
|------------------------------------------|---------------------------------------|
| Leasehold improvements                   | - over period of lease                |
| 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 |

#### Investments

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

#### Leases

Rentals 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 charged to the profit and loss account represents contributions payable by the company to the pension scheme in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### 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 1998

2 Segment information

(a) Classes of business:

|                                               | Recruitment<br>Services |               | Business<br>Solutions |               | Total         |               |
|-----------------------------------------------|-------------------------|---------------|-----------------------|---------------|---------------|---------------|
|                                               | 1998<br>£'000           | 1997<br>£'000 | 1998<br>£'000         | 1997<br>£'000 | 1998<br>£'000 | 1997<br>£'000 |
| Turnover                                      |                         |               |                       |               |               |               |
| Sales to third parties                        | 22,222                  | 14,524        | 2,921                 | 1,871         | 25,143        | 16,395        |
| Segment profit                                | 2,388                   | 1,603         | 611                   | 340           | 2,999         | 1,943         |
| Common costs                                  |                         |               |                       |               | (1,618)       | (1,073)       |
| Operating profit                              |                         |               |                       |               | 1,381         | 870           |
| Interest receivable                           |                         |               |                       |               | 5             | 9             |
| Interest payable                              |                         |               |                       |               | (3)           |               |
| Profit on ordinary activities before taxation |                         |               |                       |               | 1,383         | 879           |
| Segment net assets                            | 2,904                   | 1,724         | 575                   | 191           | 3,479         | 1,915         |
| Unallocated net (liabilities)/assets          |                         |               |                       |               | (240)         | 556           |
| Net assets                                    |                         |               |                       |               | 3,239         | 2,471         |

Segment profit figures given above have been derived from the company's internal management accounts. The former Business Solutions and Financial Systems divisions (which reported separately in the year ended 31 March 1997) were merged and the combined division is now named the Business Solutions division. Because of the close integration of the two divisions, it has not been possible to apportion accurately 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 liabilities/assets comprise those fixed assets and other assets and liabilities which cannot be separately identified by division.

(b) Geographical segments:

All turnover and profits originate in the United Kingdom.

|                                         | 1998<br>£'000 | 1997<br>£'000 |
|-----------------------------------------|---------------|---------------|
| Turnover by destination was as follows: |               |               |
| United Kingdom                          | 22,286        | 14,933        |
| Rest of the world                       | 2,857         | 1,462         |
|                                         | 25,143        | 16,395        |

### 3 Operating profit is stated after charging

|                                                            | 1998<br>£ | 1997<br>£ |
|------------------------------------------------------------|-----------|-----------|
| Auditors' remuneration for audit services                  | 18,000    | 17,000    |
| Depreciation and amounts written off tangible fixed assets | 91,252    | 71,963    |
| Operating lease rentals                                    |           |           |
| - buildings                                                | 40,554    | 33,312    |
| - vehicles and computers                                   | 48,247    | 25,964    |

Amounts payable to the auditors by the company in respect of non-audit services were £nil (1997: £79,962 which included work undertaken in connection with the company's admission to the Alternative Investment Market).

### 4 Interest

#### (a) Interest receivable

|                | 1998<br>£ | 1997<br>£ |
|----------------|-----------|-----------|
| Bank deposit   | 4,856     | 8,741     |
| Other interest | -         | 119       |
|                | 4,856     | 8,860     |

#### (b) Interest payable

|                | 1998<br>£ | 1997<br>£ |
|----------------|-----------|-----------|
| Bank overdraft | 3,038     | 368       |

### 5 Information regarding employees (including directors)

#### (a) Staff costs

|                                    | 1998<br>£ | 1997<br>£ |
|------------------------------------|-----------|-----------|
| Total staff costs were as follows: |           |           |
| Wages and salaries                 | 2,209,009 | 1,546,822 |
| Social security costs              | 219,019   | 166,059   |
| Other pension costs                | 219,854   | 156,455   |
|                                    | 2,647,882 | 1,869,336 |

Notes to the Accounts  
for the year ended 31 March 1998

5 Information regarding employees (including directors) (continued)

(b) Staff numbers

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

|                               | 1998<br>Number | 1997<br>Number |
|-------------------------------|----------------|----------------|
| Management                    | 7              | 7              |
| Production and administration | 56             | 34             |
| Sales and marketing           | 5              | 4              |
|                               | <b>68</b>      | <b>45</b>      |

6 Directors' remuneration

Aggregate remuneration

The total amounts for directors' remuneration and other benefits were as follows:

|                                      | 1998<br>£      | 1997<br>£      |
|--------------------------------------|----------------|----------------|
| Emoluments                           | 436,519        | 268,587        |
| Money purchase pension contributions | 152,574        | 100,000        |
|                                      | <b>589,093</b> | <b>368,587</b> |

(a) Directors' emoluments

|                                 | Fees/basic<br>salary<br>£ | Taxable<br>benefits<br>£ | Bonus<br>£    | Money purchase<br>pension<br>contributions<br>£ | Severance<br>payment<br>£ | 1998<br>Total<br>£ | 1997<br>Total<br>£ |
|---------------------------------|---------------------------|--------------------------|---------------|-------------------------------------------------|---------------------------|--------------------|--------------------|
| <b>Executive</b>                |                           |                          |               |                                                 |                           |                    |                    |
| JE Higham                       | 102,210                   | 4,985                    | 23,000        | 44,300                                          | -                         | 174,495            | 109,459            |
| EI Andrews                      | 95,762                    | 5,018                    | 23,000        | 30,000                                          | -                         | 153,780            | 106,123            |
| DJ Drinan                       | 77,238                    | 1,757                    | -             | 78,274                                          | 30,000                    | 187,269            | 118,757            |
| MA Eve                          | 40,550                    | -                        | -             | -                                               | -                         | 40,550             | 25,500             |
| <b>Non-Executive</b>            |                           |                          |               |                                                 |                           |                    |                    |
| NN Graham Maw                   | 28,666                    | -                        | -             | -                                               | -                         | 28,666             | 8,749              |
| DJ Drinan                       | 4,333                     | -                        | -             | -                                               | -                         | 4,333              | -                  |
| <b>Aggregate<br/>emoluments</b> | <b>348,759</b>            | <b>11,760</b>            | <b>46,000</b> | <b>152,574</b>                                  | <b>30,000</b>             | <b>589,093</b>     | <b>368,587</b>     |

Bonuses are determined by the Remuneration Committee based on the level of growth in profit before tax.

The services of NN Graham Maw are secured by a letter of appointment, and his appointment can be terminated by the company in general meeting at any time. JE Higham and EI Andrews are employed under service agreements which can be terminated at any time after giving six months' prior notice. The services of MA Eve are secured by an agreement which is terminable on 3 months' notice. The services of DJ Drinan, on his becoming a non-executive director, are secured by a letter of appointment.

## 6 Directors' remuneration (continued)

### (b) Directors' share options

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

### (c) Directors' pension entitlements

Two directors are current members of money purchase pension schemes. Contributions paid by the company in respect of such directors are shown in part (a) of this note.

### (d) Directors' interests

The interests of directors in the shares of the company are given in the directors' report on page 15.

## 7 Tax on profit on ordinary activities

The tax charge at 31% (1997: 33%) comprises:

|                                                     | 1998<br>£ | 1997<br>£ |
|-----------------------------------------------------|-----------|-----------|
| Corporation tax on the adjusted profit for the year | 434,215   | 288,000   |
| Deferred taxation                                   | 2,100     | -         |
|                                                     | 436,315   | 288,000   |
| Prior year adjustments                              | 1,924     | (18,410)  |
|                                                     | 438,239   | 269,590   |

## 8 Dividends

|                                                     | 1998    | 1997 |
|-----------------------------------------------------|---------|------|
| Final dividend of 1p per share proposed (1997: nil) | 177,000 | -    |

A share alternative will be offered in respect of the final dividend of 1p per ordinary share.

## 9 Earnings per share

The calculation of earnings per share is based on the profit for the financial year of £945,088 (1997: £609,117) and on 17,700,000 (1997: 16,934,520) ordinary shares, being the number of ordinary shares in issue and ranking for dividend during the year.

The calculation of fully diluted earnings per share is based on 18,654,638 ordinary shares, allowing for the exercise of the weighted average outstanding share purchase options, and an adjusted profit of £948,454, after adding interest deemed to be earned from investing the proceeds of such share options in 2.5% consolidated stock.

The calculation of the adjusted earnings per share for 1997 adjusts the comparative for the one-for-one scrip issue in 1998.

Notes to the Accounts  
for the year ended 31 March 1998

10 Tangible fixed assets

|                                     | Leasehold<br>improvements<br>£ | Computer<br>equipment<br>£ | Furniture, fittings<br>and office<br>equipment<br>£ | Motor<br>vehicles<br>£ | Total<br>£     |
|-------------------------------------|--------------------------------|----------------------------|-----------------------------------------------------|------------------------|----------------|
| <b>Cost</b>                         |                                |                            |                                                     |                        |                |
| 1 April 1997                        | -                              | 158,575                    | 76,989                                              | 206,187                | 441,751        |
| Additions                           | 26,686                         | 62,564                     | 46,997                                              | 57,940                 | 194,187        |
| Disposals                           | -                              | -                          | -                                                   | (61,658)               | (61,658)       |
| <b>31 March 1998</b>                | <b>26,686</b>                  | <b>221,139</b>             | <b>123,986</b>                                      | <b>202,469</b>         | <b>574,280</b> |
| <b>Depreciation</b>                 |                                |                            |                                                     |                        |                |
| 1 April 1997                        | -                              | 141,966                    | 45,144                                              | 92,643                 | 279,753        |
| Charge for the year                 | 1,692                          | 33,804                     | 19,028                                              | 36,728                 | 91,252         |
| Disposals                           | -                              | -                          | -                                                   | (36,177)               | (36,177)       |
| <b>31 March 1998</b>                | <b>1,692</b>                   | <b>175,770</b>             | <b>64,172</b>                                       | <b>93,194</b>          | <b>334,828</b> |
| <b>Net book value 31 March 1998</b> | <b>24,994</b>                  | <b>45,369</b>              | <b>59,814</b>                                       | <b>109,275</b>         | <b>239,452</b> |
| 31 March 1997                       | -                              | 16,609                     | 31,845                                              | 113,544                | 161,998        |

11 Investments

(a) Summary

|                         | 1998<br>£     | 1997<br>£     |
|-------------------------|---------------|---------------|
| Subsidiary undertakings | 8             | 6             |
| Own shares              | 40,320        | 40,320        |
|                         | <b>40,328</b> | <b>40,326</b> |

(b) Investment in subsidiary undertakings

|      | 1998<br>£ | 1997<br>£ |
|------|-----------|-----------|
| Cost | 8         | 6         |

The company owns the entire issued ordinary share capital of three dormant subsidiaries and Highams Recruitment Services (N.E.) Limited, a new subsidiary that commenced to trade on 1 February 1998, all of whom are incorporated in the UK. 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 at cost, and is in respect of a holding of 112,000 of the company's 5p shares. This represents 0.63% of the company's share capital at 31 March 1998, at which date the market value of these shares was £148,960. These shares are held by the Employee Share Benefit Trust, further details of which are given in note 20c.

## 12 Debtors

|                                | 1998<br>£        | 1997<br>£        |
|--------------------------------|------------------|------------------|
| Trade debtors                  | 4,560,702        | 3,719,489        |
| Other debtors                  | 290,089          | 83,458           |
| Prepayments and accrued income | 24,425           | 56,560           |
|                                | <b>4,875,216</b> | <b>3,859,507</b> |

## 13 Creditors: amounts falling due within one year

|                                        | 1998<br>£        | 1997<br>£        |
|----------------------------------------|------------------|------------------|
| Bank overdrafts                        | 206,511          | 188,979          |
| Amounts owed to subsidiary undertaking | 25,000           | 25,000           |
| Trade creditors                        | 1,287,282        | 1,138,942        |
| Corporation tax                        | 432,215          | 285,875          |
| Other taxes and social security costs  | 223,590          | 269,688          |
| Accruals and deferred income           | 206,471          | 80,370           |
| Dividends                              | 177,000          | -                |
|                                        | <b>2,558,069</b> | <b>1,988,854</b> |

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

## 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.

|                                                                | £             |
|----------------------------------------------------------------|---------------|
| At 1 April 1997                                                | 16,500        |
| Adjustment in relation to the change in the rate of taxation   | (1,000)       |
| Provision for contribution to the Employee Share Benefit Trust | 3,100         |
| At 31 March 1998                                               | <b>18,600</b> |

Notes to the Accounts  
for the year ended 31 March 1998

## 15 Share capital

### (a) Summary

|                    | 1998<br>Number | Authorised<br>1997<br>Number | 1998<br>£ | Authorised<br>1997<br>£ |
|--------------------|----------------|------------------------------|-----------|-------------------------|
| Ordinary 5p shares | 24,000,000     | 12,000,000                   | 1,200,000 | 600,000                 |

|                    | 1998<br>Number | Allotted, called up<br>and fully paid<br>1997<br>Number | 1998<br>£ | Allotted, called up<br>and fully paid<br>1997<br>£ |
|--------------------|----------------|---------------------------------------------------------|-----------|----------------------------------------------------|
| Ordinary 5p shares | 17,700,000     | 8,850,000                                               | 885,000   | 442,500                                            |

### (b) Changes in share capital

As a result of the resolutions relating to the "one for one" scrip issue passed by shareholders at the Extraordinary General Meeting of the company held on 13 March 1998, £442,500 of the company's reserves (being the share premium account of £203,863, the Capital Redemption Reserve of £8,500 and the balance of £230,137 being part of the accumulated Revenue Reserves) were capitalised and applied in paying up in full at par 8,850,000 new ordinary shares of 5p each which were distributed to shareholders in the proportion of one new ordinary share for each ordinary share then held.

### (c) Contingent rights to the allotment of shares

As at 31 March 1998, options have been granted in respect of 978,000 of the company's ordinary 5p shares under the Highams Systems Services Group plc Employee Share Option Schemes to subscribe for ordinary shares of the company as detailed in notes 20(a) and (b).

## 16 Movement in reserves

|                                                       | Share<br>premium<br>£ | Capital<br>redemption<br>reserve<br>£ | Profit<br>and loss<br>account<br>£ |
|-------------------------------------------------------|-----------------------|---------------------------------------|------------------------------------|
| 1 April 1997                                          | 203,863               | 8,500                                 | 1,816,399                          |
| Appropriation of reserves pursuant to the bonus issue | (203,863)             | (8,500)                               | (230,137)                          |
| Retained profit for the year                          | -                     | -                                     | 768,088                            |
| 31 March 1998                                         | -                     | -                                     | 2,354,350                          |

# 17 Reconciliation of movements in shareholders' funds

|                                      | 1998<br>£ | 1997<br>£ |
|--------------------------------------|-----------|-----------|
| Issue of new shares                  | -         | 231,363   |
| Profit for the financial year        | 945,088   | 609,117   |
| Dividend proposed on equity shares   | (177,000) | -         |
| Net additions to shareholders' funds | 768,088   | 840,480   |
| Opening shareholders' funds          | 2,471,262 | 1,630,782 |
| Closing shareholders' funds          | 3,239,350 | 2,471,262 |

# 18 Analysis and reconciliation of net funds

## Analysis of changes in net funds

|                          | 1 April<br>1997<br>£ | Cash flow<br>£ | 31 March<br>1998<br>£ |
|--------------------------|----------------------|----------------|-----------------------|
| Cash at bank and in hand | 414,785              | 246,238        | 661,023               |
| Overdrafts               | (188,979)            | (17,532)       | (206,511)             |
| Net funds                | 225,806              | 228,706        | 454,512               |

Cash at bank and in hand includes £19,680 (1997: £9,680) in respect of monies held in the Employee Share Benefit Trust.

## Reconciliation of net cash flow movement to movement in net funds

|                                           | 1998<br>£ | 1997<br>£ |
|-------------------------------------------|-----------|-----------|
| Increase/(decrease) in cash in the period | 228,706   | (401,184) |
| Change in net funds/(net debt)            | -         | (401,184) |
| Net funds at 1 April 1997                 | 225,806   | 626,990   |
| Net funds at 31 March 1998                | 454,512   | 225,806   |

Notes to the Accounts  
for the year ended 31 March 1998

## 19 Financial commitments

At 31 March 1998, the company had annual commitments under non-cancellable operating leases as follows:

|                            | 1998                       |               | 1997                       |              |
|----------------------------|----------------------------|---------------|----------------------------|--------------|
|                            | Land and<br>buildings<br>£ | Other<br>£    | Land and<br>buildings<br>£ | Other<br>£   |
| Leases expiring:           |                            |               |                            |              |
| Within one year            | -                          | -             | -                          | 6,492        |
| Between two and five years | -                          | 56,616        | -                          | -            |
| After more than five years | 85,263                     | -             | 43,312                     | -            |
|                            | <b>85,263</b>              | <b>56,616</b> | <b>43,312</b>              | <b>6,492</b> |

## 20 Employee Share Schemes

### (a) Approved Employee Share Option Scheme

The company adopted an Inland Revenue approved Executive Share Option Scheme on 17 May 1996. On 27 June 1997, options over a total of 49,000 shares were provided to employees at an exercise price of £1.25. Following the subsequent bonus issue of shares, the number of shares has increased to 98,000 at an exercise price of 62.5p. The scheme will terminate on 17 May 2006.

### (b) 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. Following the sub-division of the £1 ordinary shares into 5p ordinary shares in 1996 and subsequent bonus issues of shares, the number of options held has varied. Each option holder now has options over 400 ordinary shares for every option over an ordinary share of £1 previously held and the revised subscription price is now 10p per ordinary share. The scheme will terminate on 15 November 2002. The total number of shares under option at 31 March 1998 was 880,000. Options on 160,000 shares can be exercised between December 1998 and November 2002, and between November 1999 and October 2003 on the balance of 720,000 shares.

### (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) – as applicable to such trusts – assets and liabilities are recognised in the sponsoring company's balance sheet where they have been guaranteed by the sponsoring company. 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 £10,000 (1997: £nil) to the Trust as funding to acquire shares in the company in due course. The Trust holds 112,000 of the company's 5p shares. No shares have been transferred to employees or were under option as at 31 March 1998 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 1998 was cash at bank of £19,680 (1997: £9,680) 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

|                                                  | 1998<br>£'000 | 1997<br>£'000 | 1996<br>£'000 | 1995*<br>£'000 | 1994*<br>£'000 |
|--------------------------------------------------|---------------|---------------|---------------|----------------|----------------|
| <b>Results</b>                                   |               |               |               |                |                |
| Turnover                                         | 25,143        | 16,395        | 13,227        | 11,174         | 6,065          |
| Operating profit                                 | 1,382         | 870           | 895           | 609            | 328            |
| Profit on ordinary activities<br>before taxation | 1,383         | 879           | 899           | 598            | 327            |
| Profit for the financial year<br>after taxation  | 945           | 609           | 600           | 382            | 225            |
| Dividends                                        | 177           | -             | 42            | 25             | 30             |
| <b>Assets employed</b>                           |               |               |               |                |                |
| Fixed assets                                     | 280           | 202           | 107           | 137            | 163            |
| Net current assets                               | 2,978         | 2,285         | 1,540         | 936            | 577            |
| Provisions for liabilities and charges           | (19)          | (16)          | (16)          | -              | -              |
| Net assets                                       | 3,239         | 2,471         | 1,631         | 1,073          | 740            |
| <b>Financed by</b>                               |               |               |               |                |                |
| Equity shareholders' funds                       | 3,239         | 2,471         | 1,631         | 1,073          | 740            |
| <b>Key statistics</b>                            |               |               |               |                |                |
| Earnings per share (note)                        | 5.34p         | 3.6p          | 3.6p          | 2.3p           | 1.35p          |
| Return on shareholders' funds**                  | 29.2%         | 24.6%         | 36.8%         | 35.6%          | 30.4%          |
| Return on assets***                              | 24.5%         | 19.6%         | 28.3%         | 23.2%          | 21.0%          |

### Note:

Earnings per share for 1994 to 1998 inclusive have been adjusted pursuant to the sub-division of existing shares and the bonus issue of shares in the years ended 31 March 1997 and 1998.

\* Based on consolidated accounts

\*\* Profit for the financial year/shareholders' funds

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





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