

Company Number 1700310

Highams Systems Services Group plc

**Annual Report and Financial Statements
for the year ended 31 March 2007**



Highams is delighted to be in partnership with Rainbow Trust, Trees for Cities and Action Aid. Highams' staff will raise money for Rainbow Trust to provide support for the families of sick children, whilst we will be making donations to Trees for Cities for every interview we arrange and to Action Aid for every successful placement we make.

Rainbow Trust Children's Charity provides practical and emotional support to Families who have a child with a life threatening or terminal illness.

www.rainbowtrust.org.uk

Trees for Cities is an independent charity set up in 1993 to work with local communities on tree planting projects.

www.treesforcities.org

ActionAid is an international anti-poverty agency whose aim is to fight poverty worldwide.

www.actionaid.org.uk

Highams is a Corporate Member of the Recruitment & Employment Confederation having satisfied REC membership criteria and committed to its Code of Professional Practice. In addition, Highams is also a member of the specialist sector group for IT and Communications recruitment agencies. Highams CEO is spokesperson for the REC IT and Communications sector.

A Member of REC IT & Comms

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"In my experience of recruitment over the last ten years, Highams' knowledge of the market for project managers, business analysts and testers for the UK and European insurance industry is unrivalled"

Jan Egan, Business Analysis Manager, Allianz plc

Key Highams Principles

Show that talent matters

Create memorable customer experiences

Drive profitable ventures

Embrace innovation

Leave our mark

Highams Systems Services Group - at a glance

"When I interview candidates that have been sent by Highams, I not only know that they are technically capable but, more importantly, they are the right kind of character for Novae"

Steve Fookes, IT Director, Novae Group plc

Our Markets

We provide IT resource solutions to the Insurance, Investment Management and Financial Services sectors, the markets in which we have specialised for the past 24 years. The companies to which Highams supplies talented personnel range from major financial institutions through start-up insurance companies to specialist software suppliers to this market. Our niche market expertise and proven resourcing capability have positioned us as the specialist of choice with many blue chip organisations.

Our Consultants, Contractors and Applicants

Our speciality is in finding excellent career opportunities and assignments for senior IT talent. We are constantly developing our relationships and networks to ensure we obtain the best available positions for such talent, whilst ensuring that their skills and personalities are compatible with the needs of our clients.

Our People

At Highams, we work hard to develop and maintain long-term relationships with our clients, contractors and applicants. To help ensure this, we focus on the development and retention of our very experienced and proud staff to ensure they are among the most knowledgeable in the industry, both in terms of recruitment best practice and the specialist niche markets in which Highams operates.

Operating and Financial Highlights

Financial	2007 £'000	2006 £'000
Turnover	16,286	17,997
Gross profit	2,165	2,112
Operating (loss)/profit for the financial year before amortisation of goodwill	(120)	192
Loss for the financial year before tax	(313)	(13)
Net current assets	681	848
Shareholders' funds	1,661	1,974
Loss per share	(0.98)p	(0.05)p
(Loss)/profit per share before amortisation of goodwill	(0.58)p	0.35p
Dividend per share	-	-

Operational

- A year of significant change with agreed ambitious plans for the year ahead
- Revamped board including appointment of Dave Pye as new CEO
- New City of London office and enlarged sales team have already delivered additional business
- Good progress made in moving to higher-margin recruitment
- Higher margin permanent business increased by 90% - strong demand for permanent staff traditionally a sign of a confident market
- Continued investment in current year
- Overseas expansion – future roll-out of innovative low cost, high touch model as a formula for further international development
- Gross profit up by 2.5% to £2.2m (2006 £2.1m), representing 13.29% of turnover (2006 11.73%), Group turnover fell to £16.3m (2006 £18.0m), reflecting reduced volume of low-margin contract business, Group operating loss before goodwill amortisation of £120k (2006 profit of £192k before goodwill amortisation), in the main reflecting increased investment in the second half of the year

Chairman's Statement

Highams' end users

Insurance
AIG
Allianz Insurance
Aspen
Capita Life & Pensions Services
Cassidy Davis
CETA
CMGL
Diligenta
EDS Solcorp
HSBC
Just Retirement
Kanbay

Liberata
Lockton International
LV Insurance Management
MGM Assurance
Mitsui Sumitomo Insurance
Open GI
Prudential Assurance
RIAS
Scor Global
Software Solutions Partners
Swiftcover.com
Winterthur Financial Services
Zurich Insurance
3i infotech

Create memorable custo

These are exciting times at Highams. We have a revamped Board. We have a new Chief Executive, Dave Pye. We have opened a new Highams office in the heart of our client base in the City of London. We have considerably enlarged our sales team. We have agreed ambitious plans for the year ahead.

Our goal is to make a step change in the Group's performance. We recognised as a Board that such a step change was not likely without new personnel at all levels of the organisation, starting at the top!

I strongly encourage you to read our new Chief Executive's Report to learn more of the year ended 31 March 2007 and, importantly, what is in store for this current financial year and the future.

The results for the last financial year, given below, reveal the progress we are making in our move to higher margin business, albeit the bottom line was inevitably impacted by the investment at the start of the new change programme. The current financial year will be one of continued investment as we implement our plans, which we expect to see bear fruit in this and subsequent years.

Financial Results

The Group made an operating loss of £120,000 before goodwill amortisation of £128,000 (2006: profit of £192,000 before goodwill amortisation of £128,000), in the main reflecting our increased investment in the second half of the year.

Group loss before taxation was £313,000 (2006: loss of £13,000).

Reflecting the Group's move towards higher margin business and a greater percentage of permanent business, Group turnover fell by 10 per cent. to £16.3m (2006: £18.0m) as we undertook a reduced volume of low-margin contract business, but gross profit still grew by 2.5% to £2.2m (2006: £2.1m) representing 13.29% of turnover, a significant improvement compared to 11.73% in 2006.

The Directors are not recommending the payment of a final dividend for the year to 31 March 2007 (2006: nil).

Trading Review

Our emphasis has been, and remains, on finding higher value business through further enhancing our capabilities to provide a specialised range of services to smaller and medium sized organisations. We have continued to seek and win new clients that meet these criteria in our niche market sectors of insurance, investment management and financial services.

We have achieved this refocusing of our strategy whilst managing to modestly improve our levels of net fee income. Compared to the previous year, our volume of low-margin business has reduced substantially, while higher-margin contract business has increased by around 5% and permanent business has increased by 90%.

Trading in our specialist areas has remained positive, with a continuing emphasis on demand for permanent staff. This stronger demand for permanent staff compared to contract personnel is traditionally a sign of a confident market.

Demand is particularly strong, across the board, for individuals with project and programme management skills, business analysis experience related to business intelligence and regulatory reporting, and those with web development skills in our niche markets.

Investment

In 2007/08, we are making substantial investments in new initiatives, additional staff, targeted training, our London premises and overseas expansion. We expect that our niche markets will remain strong for the next two or three years at least, making this an opportune time to be investing in our ambitious plans. Inevitably there are normal risks associated with such an investment programme, and the delivery of the benefits from the investments will lag behind the costs. I therefore

Investment Management,
Banking & Finance
Bravura Solutions
Credit Suisse Securities (Europe)
Fortis Investment Management
HBOS
Infocomp
Nationwide Building Society
Paymaster (1836)
Praemium
Selestia
Swiss Re
Tradar
1st Software

Non Financial
BMW (UK)
Hitachi Europe
McKesson
Nortel Networks
Perot Systems
Pfizer
Sainsbury's
Schneider Electric
Spicer Haart
Thales

mer experiences.

expect our half year results to reflect the costs and few of the benefits, whilst the second half of the year should be more balanced. Such investments will initially also require greater use of our finance facilities and hence higher interest charges will likely be incurred.

Board Changes

On 3 January 2007 we welcomed Dave Pye as our new CEO, following an intensive selection process. Dave brings substantial sales and senior-level management experience, a wealth of contacts and extensive influence within the IT recruitment industry to his new role at Highams and has used all of this to determine and drive the exciting change programme on which we have embarked.

On Dave's appointment, Ted Andrews stepped aside as Managing Director to assume the position of Chief Operating Officer.

We announced the resignations of Glen Burbidge and Tony Eve, effective from 31 March 2007 and 11 May 2007 respectively. Glen Burbidge's Board responsibilities have been assumed by Dave Pye whilst his operational duties have been taken over by Mark de Lacy, who runs our Caterham sales team, and Paul Byrne who is in charge of our London sales office. Tony Eve's Board and operational responsibilities have been absorbed into Ted Andrews' role.

Executives and Staff

We remain unusual amongst recruitment companies in having a high number of very knowledgeable and long-serving staff. I am extremely grateful to them for their loyalty and their eagerness to support the significant changes we are effecting in the Company. I extend a warm welcome to our newer staff and hope that many of them will develop along similar lines as their experienced colleagues.

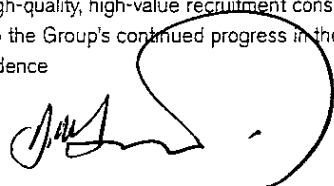
Outlook

As I stated in my introduction, these are exciting times at Highams with a great number of very positive changes in progress. Dave Pye's CEO's Report explains many of these changes, demonstrating the thought leadership, practical approach and infectious energy and enthusiasm he has brought to Highams.

With the continuing strength of our marketplace and our determined approach to delivering high-quality, high-value recruitment consultancy services, I look forward to the Group's continued progress in the months ahead with confidence.

Alan Howarth –

Chairman
23 July 2007



Drive profitable ventures

The rising importance of recruitment companies

The search for talent has remained one of the top priorities for Chief Executives during the past year. Its importance will continue in the next five years as organisations realise that what McKinsey once called the 'War for Talent' is having a major impact on recruitment companies in Europe and globally. Two significant reports on Talent and Recruitment in *The Economist* (Oct 06) and by Demos* and the Recruitment and Employment Confederation (April 07) have shown how recruitment is changing and how increasingly important intermediaries such as Highams are in the provision of talent to organisations.

We fully expect that changing demographics, new attitudes to career expectations and more dependence from employers on a good personality fit (compared to simply a good skills fit) will place greater emphasis on high-quality, network orientated recruitment methods.

Highams operates in this arena and is creating a niche for itself in the provision of senior appointments in technology in the financial services sector. Highams' role as an intermediary between contingent and permanent talent and our customers continues to be recognised by our long standing customers and those new clients who started benefiting from Highams' services in the past year.

Challenging Highams in a Changing World

Since my arrival in January 07, there has been much change at Highams to ensure we make the most of the rising importance of recruitment companies to organisations. The market in the UK and Europe continues to grow. This year Highams has hired 15 new people to tap into this growth. Our focus has remained in financial services and I am delighted to report Highams has secured a number of new customers in the last quarter of 2006/07. Whilst the focus away from some of the historic, lower margin, preferred supplier business has had an effect on the revenue line, proportionally the net fee income as a percentage of sales is rising.

Our approach has been to refine our offering to our customers – both to our consultants and candidates and to organisations which hire them. Highams offers two distinct services, a private client approach in the provision of senior consultants who have worked with Highams in the past and a retail approach for general business with a wider range of customers. This has resulted in Highams developing deeper relationships with significant customers and allowing us to offer them a wider range of value-creating services whilst, at the same time, maintaining our existing business with customers where Highams places people with organisations on an occasional basis.

Our major focus for 07/08 is to ensure Highams is at the forefront in our sector in maximizing the efficiency provided by Web 2.0. In the words of the Demos report, "Web 2.0 sees the internet as a collaborative tool, where we each have a role in creating value for one another" as is happening, for instance, with YouTube, LinkedIn and Facebook. This will result in attracting talent for our customer base and ensuring that talent can communicate with one another and with Highams. The relationship that Highams builds with its candidates and consultants will be increasingly vital to its success in a world where those who manage and deliver top talent will become ever more important and successful.

The International Dimension

As our customer base grows so will our presence internationally. Our business in Brussels has grown in 2006/07 and our innovative model of using local home-workers in Belgium is a formula that Highams will use internationally during the coming 12 months. This model primarily involves ex-patriates, typically parents returning to full or part-time work having had families. They are excellent recruiters and their intelligence combined with our workforce flexibility will help develop and cement stronger relationships with our customers. It is a low cost, high touch model that will see Highams become an international organisation in a world where talent is sourced and delivered globally. As talented people continue to move around, Highams will feature prominently in its sector. This approach is being executed initially by working with our

"I have always been impressed by Highams and its knowledge of our industry. In terms of service, Highams provides nothing short of excellence"

Steve Williams, Head of Strategic Sales,
Bravura Solutions

international customers who are demanding Highams provides its excellent UK services into other geographic locations

Expansion in the UK

In April 2007, we opened our first office in the UK outside our Caterham headquarters. Taking an office on the 28th floor of the iconic 'Gherkin' building in the City of London has brought Highams closer to its financial services customers and is a base for our Platinum Club, an invitation only community for our private client technology talent.

Highams continues to work alongside its customers as they seek to become more imaginative, utilise their brand in the most effective way and ensure that, in the 'digital age', the technology that drives organisations is provided by the very best people. Highams will continue to provide the very best talent as it continues to grow with its customers in the coming years.

Our wider responsibility

Highams has recently selected Rainbow Trust, Trees for Cities and Action Aid to partner. Working with Rainbow Trust, Highams' staff will, through various fund-raising events, raise money to provide support for the families of sick children.

We will also be raising awareness for our environment and for projects overseas by making donations to Trees for Cities (for every interview) and Action Aid (for every contract or permanent placement made).

These partnerships are a great example of how we can work alongside a charity, both motivating our staff in their work and demonstrating to clients our social responsibility.

People making the difference

One of the key success factors for Highams to build on is the length of service of our people. Of our people who have been with us for more than a year, over 50% have been at Highams for more than 10 years and a further 30% for more than 5 years. In a market where traditionally recruiters move many times, our heritage of keeping our

top people is much appreciated by our customers, resulting in continued and strong business renewals. Adding another 40% of people to this team this year has already generated additional business and will auger well for the coming years.

Today Highams employs 40 proud people. In this rising market they all need to be at the top of their game. Those that were not, exited the business in the final quarter of 2006/07. For both our new colleagues and our existing people, new training programmes have been developed. Highams has taken an active role in the recruitment industry with its involvement in the Recruitment and Employment Confederation. The Highams brand, often quoted in the past 24 years but certainly relatively quiet in the recent past, has been invigorated with a number of press articles, customer events and charitable involvement in the first six months of 2007.

My role as CEO is to ensure our people are confident and happy in the key role they play in our organisation and with their customers. It is to drive this business back to sustainable, profitable growth and to provide the platform to do so. Finally, it is to establish Highams as one of the key organisations upon whose services its customers rely to drive their businesses forward.

I am proud of our people and their dedication in this year of change and excitement. I trust that you will share in our enthusiasm to make a difference in the recruitment sector and to see how our influence matters as we devote ourselves to being the leading niche provider of technology talent in the financial services industry.

Dave Pye –

Chief Executive Officer
23 July 2007



Directors

1 Alan Miles Howarth **Non-Executive Chairman**

Alan, aged 61, was appointed a director and Chairman on 3 May 2005. He has spent over 20 years as a management consultant advising management on strategic, operational and resource improvement. Formerly Managing Director of Compass Management Consulting, he was a partner with Ernst & Young for 16 years. Additional non-executive directorships include Gresham Computing plc, Chamberlin & Hill plc, CRF Inc and various interests in public bodies and smaller private concerns.

2 Dave Pye **Chief Executive Officer**

Dave, aged 42, joined the company and was appointed a director on 3 January 2007. Dave has extensive experience as a recruitment professional within the technology services industry over a 20 year period. He was previously Managing Director of the Technology division within Spring Group plc, the UK's largest technology staffing organisation, and was a member of the Spring Group Management Board.

3 Edward Ian Andrews **Chief Operating Officer**

Ted, aged 55, has been a director of Highams since joining the company on 1 November 1983. He has a background of technical and management roles in insurance companies and software houses. He gained experience in directing the software and recruitment aspects of the Group prior to being appointed Group Managing Director in 1999, moving to his current role in January 2007.

4 John Edward Higham **ACII Non-Executive Director** **and Deputy Chairman**

John, aged 62, founded Highams in 1983 after many years gaining experience of the insurance market from an IT and business perspective, both within insurance company and software house environments. John was Chief Executive of the Group until April 2000 when he took up his current role. He has been a director of the company since 1 February 1983.

Directors and Advisers

Executive Management Team –

1 Ted Andrews 2 Kern Sayers 3 Paul Byrne
4 Mark de Lacy 5 Mike Radlett 6 Dave Pye

Directors

AM Howarth (Chairman)
D Pye (Chief Executive Officer, appointed 3 January 2007)
EI Andrews (Chief Operating Officer)
JE Higham (Non-executive)
GD Burbidge (resigned 31 March 2007)
MA Eve (resigned 11 May 2007)

Secretary

EI Andrews

Registered Office

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

Auditors

BDO Stoy Hayward LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex RH6 0PA

Registered number

1700310

Bankers

The Royal Bank of Scotland plc
Turnpike House
123 High Street
Crawley
West Sussex RH10 1DQ

Registrars

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire HD8 0LA

Nominated Adviser and Broker

Charles Stanley Securities
25 Luke Street
London EC2A 4AR

Solicitors

Kirkpatrick & Lockhart Preston
Gates Ellis LLP
110 Cannon Street
London EC4N 6AR

Report of the Directors

The directors present their report and the audited financial statements for the Company and the Group for the year ended 31 March 2007

Principal Activity Highams is a specialist IT recruitment consultancy and its principal activity is the provision of contract and permanent IT recruitment services, mainly in the insurance, investment management and financial sectors. Further details of the Group's operations are given in the Chief Executive's Report.

Results and Dividends The Group recorded a loss before taxation of £313,000 (2006 loss £13,000) on a turnover of £16.3m (2006 £18.0m)

The directors do not recommend a final dividend (2006 nil). No interim dividend was paid during the year (2006 nil).

Review of Business The detailed review of the year and the significant changes that are occurring are described in the Chairman's Statement and Chief Executive's Report on pages 4 to 7.

The directors closely monitor a number of key performance indicators in the business. The directors consider that the most important indicator is the gross profit obtained from permanent and contract placements, together with the average gross margin percentages achieved. It is encouraging to note that gross profit increased by 2.5% during the period, whilst average gross margin increased from 11.73% to 13.29%.

Key Financial Risks of the Group

Interest Rate Risk The Group finances its operations through a mixture of retained profit, bank borrowings and invoice discounting. The Group borrows in pounds sterling and euros.

Liquidity Risk The Group's policy is to ensure that it has adequate financial resources to enable it to finance its day to day operations based on cash flow projections. The Group's working capital requirements are usually short term in nature and accordingly the Group uses short term overdraft and invoice discounting facilities.

Foreign Currency Risk The Group trades within Europe. Its transactions are generally priced and invoiced in euros and the direct costs of the sales are denominated in that currency. Risk arises on the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit concerned.

Credit Risk As the Group trades primarily within the financial services sector, its experience of bad debt is very limited. However, credit ratings provided by credit rating agencies are obtained for all non 'blue chip' clients.

Key Business Risks of the Group

Staff Highams has an excellent record of staff retention in the recruitment market. In a service company such as Highams, it is essential that high-quality staff are recruited and then retained (through appropriate incentives, focused training and a challenging but supportive environment) if client relationships are to be maintained and new customers won.

Clients Clients may choose not to continue to use Highams' services if our service fails to meet the required standards. We may also lose a client's business if that client is acquired by a competitor.

To help ensure the maintenance of high standards, Highams is committed to the REC Code of Professional Practice and its ISO9001 certified quality management system. Importantly, longevity of service of many Highams staff helps provide clients with continuity of dealing with someone who has a detailed knowledge of their needs, a big factor in helping retain clients.

Applicants and Contractors In a buoyant market, permanent applicants usually have a greater choice of positions available to them whilst fewer contractors might be seeking work.

Highams' staff work hard to be very knowledgeable about their niche business and technical areas. By developing a network of clients,

contractors and applicants relevant to that niche, Highams' staff are better positioned to attract and help talented contractors and applicants than more generalist agencies might be

Competition There are many competing recruitment organisations. It is very important that Highams maintains and enhances its niche market approach in order to continue to differentiate itself from most other such organisations

Directors The directors of the Company are set out on page 8

In accordance with the Company's Articles of Association, AM Howarth retires by rotation and offers himself for re-election. Biographical details for Mr Howarth are provided on page 8

D Pye was appointed a director on 3 January 2007 and offers himself for election. Biographical details of Mr Pye are provided on page 8

Directors' interest in shares The persons who held the office of director at 31 March 2007 had the following interests in fully paid ordinary 5p shares of the Company at the beginning and end of the financial year

	31 March 2007		1 April 2006	
	Shares	Options	Shares	Options
El Andrews	3,570,000	-	3,570,000	-
GD Burbidge	587,842	-	587,842	-
MA Eve	108,476	-	62,400	-
JE Higham	8,697,649	-	8,697,649	-
D Pye	-	1,931,700	-	-

Notes

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 D Pye's share options were granted on 30 March 2007

3 AM Howarth has no interests in shares of the Company

4 MA Eve resigned from the Company on 11 May 2007. His interest includes 83,276 shares held by his wife and children. He has a further non-beneficial interest in 1,230,000 shares held by The John Higham Family Trust of which he is a trustee (see Note 1)

5 GD Burbidge resigned from the Company on 31 March 2007

As at 9 July 2007, there have been no changes to serving Directors' interests in shares as reported at 31 March 2007

Substantial shareholders As at 9 July 2007, the following substantial shareholdings have been notified to the Company

	Number of shares	% of issued Share Capital
JE Higham	7,267,649	22.80%
John Higham Family Trust	1,230,000	3.86%
El Andrews	3,570,000	11.20%
Resource Solutions Group	1,325,000	4.16%
Brewin Nominees Limited	1,302,300	4.09%
Teawood Nominees Limited	1,050,000	3.29%

Share option schemes Information regarding the Company's share option schemes is given in note 21 to the financial statements

Corporate governance The directors report on page 14 upon the extent to which the Company observes and complies with the "Combined Code" published by the Financial Reporting Council in July 2003

Report of the Directors

continued

Supplier payment policy The Group's policy is to pay its contractors by direct credit within seven days of receipt of correct invoices. The Group'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 2007 was 36 (2006: 26).

Financial instruments Details of the Group's financial instruments are given in note 14 to the financial statements.

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.

Charitable and political donations During the year, the Company made no charitable donations (2006: nil). There were no political donations (2006: nil).

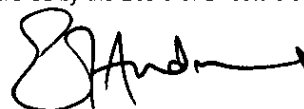
As mentioned in the Chief Executive's Report, the Company has chosen certain charities to support during the current financial year.

Auditors So far as the directors who were in office at the time that this Directors' report was approved are aware, there is no relevant audit information of which the auditors are unaware. Each such director has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the Annual General Meeting.

This report was approved by the Board of Directors on 23 July 2007.

El Andrews --
Company Secretary



Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group 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. Regular strategy meetings are held to review the Group's forward planning – vital in a rapidly changing market and technology environment.

The Board currently consists of two executive directors and two non-executive directors. 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 tasks are carried out by 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.

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.

An ongoing process has been established for identifying, evaluating and managing the principal risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews the process.

Audit Committee The Board collectively undertakes the functions of the Audit Committee which is chaired by John Higham.

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.

The Audit Committee has sole responsibility for assessing the independence of the external auditors, BDO Stoy Hayward LLP. The committee has had due regard to the document published in May 2003 by the Institute of Chartered Accountants in England and Wales (ICAEW) "Reviewing Auditor Independence: guidance for audit committees". Each year the committee undertakes to seek reassurance that the external auditors are independent.

Remuneration Committee This committee (Remcom), which meets at least twice a year, is chaired by Alan Howarth, the Board collectively undertakes the functions of Remcom. The Board has adopted a set of operational rules for Remcom which will be available for inspection at the AGM.

The Directors' Remuneration Report is on page 15.

Going Concern After making appropriate enquires, 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 financial statements.

Directors' Remuneration Report

This report sets out the remuneration policies for the Group's executive directors. It should be read in conjunction with details of directors' remuneration in note 5 which forms part of the audited financial statements. The members of the remuneration committee (Remcom) are identified on page 14.

With the exception of Mr Andrews and Mr Pye, the members of Remcom are independent of conflicts of interest arising from day to day running of the business. Remcom makes recommendations to the Board. No director is involved in discussion about his own remuneration.

Remuneration Policies Remcom recommends to the Board a framework for executive remuneration. Remcom determines specific packages for each executive director including pension rights and compensation payments.

The general philosophy underlying the Group's remuneration policy for executive directors is the same as that applied to all senior employees in order to encourage excellence. The basic components of remuneration are salary and benefits, cash bonuses, share schemes and pensions.

Salary and Benefits Remcom studies independent reports and market trends in considering the level of salary and benefits. It also takes into account experience, responsibility and performance.

Bonuses Bonuses may be awarded at Remcom's discretion depending on Company performance and profits within the relevant business area. Details of D Pye's share and bonus scheme are given below.

Share Schemes Details of all Company share schemes, together with the performance incentives, appear in note 21 to the financial statements.

D Pye was granted options on 1,931,700 shares exercisable at 5 125p per share pursuant to the Highams EMI Share Option Scheme.

The options were granted by Remcom on 30 March 2007, this being the last business day of the year, the share price at the year end was 5 125p. The options will vest subject to the audited gross profit figure of the Group for the financial year ended 31 March 2008 being in excess of £600,000 greater than the audited gross profit figure of the Group for the financial year ended 31 March 2007. In the event that the above gross profit figure to 2008 is not achieved, one third of the options shall instead vest on an increase in gross profit of £500,000 or more. Vested options are exercisable at any time between 30 March 2010 and 30 March 2017.

If the target of a £600,000 increase in gross profit is achieved, a cash bonus of £50,000 will be paid. If the gross margin in the period increases by more than £600,000, the cash bonus described above will be increased by 25% of the gross margin in excess of £600,000.

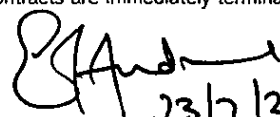
If the target of a £600,000 increase in gross margin is not achieved, but an increase of at least £500,000 is achieved, a cash bonus of £16,500 will be paid.

Pensions The Group operates a defined contribution pension scheme, the contributions to which are set out in note 5 to the financial statements.

Service Contract Of the executive directors, EI Andrews has a service agreement terminable by the Company by not less than twelve months' notice or by the executive at not less than six months' notice. D Pye has, and MA Eve had, an agreement that can be terminated on six months' notice. GD Burbidge had a service agreement terminable by the Company by not less than twelve months' notice or by the executive at not less than six months' notice.

Non-Executive Directors Non-executive directors receive an annual fee in respect of their duties. The fees are reviewed annually and are set by the board. Their contracts are immediately terminable.

EI Andrews –
Company Secretary



23/7/2007

Report of the Auditors

Report of the independent auditors to the shareholders of Highams Systems Services Group plc

We have audited the group and parent company financial statements (the "financial statements") of Highams Systems Services Group plc for the year ended 31 March 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's

Statement, the Chief Executive's Report, the Statement of Corporate Governance, the Directors' Remuneration Report, the Operating and Financial Highlights and the Five Year Record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 31 March 2007 and of its loss for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2007,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements


BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

Gatwick

23 July 2007

Consolidated Profit & Loss Account

for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Turnover	2	16,286	17 997
Cost of sales		(14,121)	(15,885)
Gross profit		2,165	2,112
Administrative expenses			
– before goodwill amortisation		(2,285)	(1,920)
– goodwill amortisation	9	(128)	(128)
		(2,413)	(2,048)
Operating (loss)/profit before goodwill amortisation		(120)	192
Operating (loss)/profit		(248)	64
Interest receivable	3a	-	2
Interest payable	3b	(65)	(79)
Loss on ordinary activities before taxation	6	(313)	(13)
Tax on loss on ordinary activities	7	-	(2)
Loss for the year	17	(313)	(15)
Loss per share - basic and diluted	8	(0 98)p	(0 05)p

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 March 2007

	2007 £'000	2006 £'000
Loss for the financial year	(313)	(15)
Loss on foreign currency translation	-	(1)
Total recognised gains and losses	(313)	(16)

The accompanying notes are an integral part of these financial statements

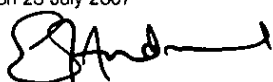
Consolidated Balance Sheet

31 March 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Goodwill	9	943	1,071
Tangible assets	10a	37	55
		980	1,126
Current assets			
Debtors	12	2,936	3,170
Cash at bank and in hand		228	73
		3,164	3,243
Creditors amounts falling due within one year	13	(2,483)	(2,395)
Net current assets		681	848
Net assets		1,661	1,974
Capital and reserves			
Called up share capital	16a	1,594	1,594
Share premium	17a	679	679
Merger reserve	17a	90	90
Employee share benefit trust reserve	17a	(61)	(61)
Profit and loss account	17a	(641)	(328)
Shareholders' funds	17a	1,661	1,974

The financial statements on pages 18 to 34 were approved by the Board of Directors and authorised for issue on 23 July 2007

El Andrews, Director



JE Higham, Director



The accompanying notes are an integral part of these financial statements

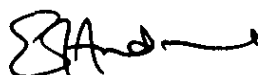
Company
Balance Sheet

31 March 2007

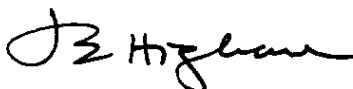
	Notes	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	10	14	26
Investments	11	-	-
		14	26
Current assets			
Debtors	12	3,241	2 945
Cash at bank and in hand		14	2
		3,255	2 947
Creditors amounts falling due within one year	13	(322)	(199)
Net current assets		2,933	2,748
Net assets		2,947	2,774
Capital and reserves			
Called up share capital	16a	1,594	1 594
Share premium	17b	679	679
Merger reserve	17b	297	297
Employee share benefit trust reserve	17b	(61)	(61)
Profit and loss account	17b	438	265
Shareholders' funds	17b	2,947	2 774

The financial statements on pages 18 to 34 were approved by the Board of Directors and authorised for issue on 23 July 2007

El Andrews Director



JE Higham, Director



The accompanying notes are an integral part of these financial statements

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Net cash (outflow)/inflow from operating activities	18	(61)	458
Returns on investments and servicing of finance			
Interest received		-	2
Interest paid		(65)	(79)
		(65)	(77)
Taxation			
UK corporation tax		-	(46)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(10)	(38)
Sale of tangible fixed assets		-	9
		(10)	(29)
Cash (outflow)/inflow before financing in the year		(136)	306
Financing			
Purchase of own shares by Employee Share Benefit Trust		-	(2)
Increase/(decrease) in invoice discounting facility		291	(478)
		291	(480)
Increase/(decrease) in cash in the year	19	155	(174)

The accompanying notes are an integral part of these financial statements

Notes to the Financial Statements

for the year ended 31 March 2007

1 Accounting Policies

Accounting convention

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

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings using the acquisition method of accounting

The results of subsidiary undertakings acquired are included from the date of acquisition. The results of subsidiary undertakings disposed of are included up to the date of disposal, and the net profit or loss on disposal is calculated based on the net proceeds receivable and the net assets at the date of disposal, including any unamortised goodwill

Turnover

Turnover represents amounts receivable for services provided during the accounting period net of trade discounts and value added tax. Revenue in respect of contract placements is recognised in the period in which the contractor undertakes the work. Revenue in respect of permanent placements is recognised in the period in which a placement commences work.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings is carried on the balance sheet and amortised over its useful economic life of ten years. The carrying value of goodwill is reviewed regularly for impairment. On subsequent disposal of the underlying investment, any goodwill not yet amortised will be taken to the profit and loss account when calculating the profit or loss on disposal.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation and provision for impairment. 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

Investments are shown at cost less provision for impairment.

Finance and operating leases

Assets held under finance leases or hire purchase agreements are capitalised in the financial statements and depreciated over their estimated useful lives. Finance and hire purchase charges are charged to the profit and loss account over the period of the lease.

Rentals under operating leases, being leases which do not result in the transfer to the Group 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.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except for deferred tax assets which are only recognised to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the time of the transaction. 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.

Foreign currency (on consolidation)

The results of overseas operations are translated at the average rates of exchange ruling during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising from this policy are dealt with through reserves.

Pension costs

The Group operates a defined contribution pension scheme. The pension cost charged to the profit and loss account represents contributions payable by the Group 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.

Financial instruments

In relation to the disclosures made in note 14

- short term debtors and creditors are not treated as financial assets or financial liabilities (other than for currency disclosures),
- the Group does not hold or issue derivative financial instruments for trading purposes

Employee share benefit trust

The cost of the Company's shares held by the employee share benefit trust is deducted from shareholders' funds in the company and consolidated balance sheet. Any cash received by the employee share benefit trust on disposal of the shares it holds is also recognised directly in shareholders' funds. Other assets and liabilities of the employee share benefit trust, (including borrowings) are recognised as assets and liabilities of the company. Any shares held by the employee share benefit trust are treated as cancelled for the purposes of calculating earnings per share.

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Notes to the Financial Statements

for the year ended 31 March 2007

2 Segmental information

(a) Classes of business

In the years ended 31 March 2007 and 2006 the Group operated the single activity of recruitment services

(b) Geographical analysis

	Turnover by origin		Turnover by destination	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
United Kingdom	16,094	17,739	15,051	16,790
Rest of World	192	258	1,235	1 207
	16,286	17,997	16,286	17,997

The United Kingdom accounts for substantially all of the Group's loss before tax, and net assets

3 Interest

(a) Interest receivable

	2007 £'000	2006 £'000
Bank deposit	-	2

(b) Interest payable

	2007 £'000	2006 £'000
Invoice discounting facility	62	70
Other	3	9
	65	79

4 Information regarding employees (including directors)

(a) Staff costs

Total staff costs were as follows

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Wages and salaries	1,339	1 094	525	334
Social security costs	139	120	50	36
Other pension costs	60	102	46	90
	1,538	1 316	621	460

(b) Staff numbers

The average number of persons employed during the year were as follows

	Group		Company	
	2007 number	2006 number	2007 number	2006 number
Management	5	5	7	7
Production and administration	5	5	-	-
Sales and marketing	19	17	-	-
	29	27	7	7

5 Directors' remuneration

Aggregate remuneration

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

	2007 £'000	2006 £'000
Emoluments	359	273
Compensation for loss of office (GD Burbidge)	100	-
Money purchase pension contributions	41	86
	500	359

(a) Directors' remuneration

	Fees/basic salary 2007 £'000	Taxable benefits 2007 £'000	Total emoluments 2007 £'000	Severance payment 2007 £'000	Money purchase pension contributions 2007 £'000	2007 £'000	Total emoluments 2006 £'000	Money purchase pension contributions 2006 £'000	2006 £'000
Executive									
D Pye									
appointed 3 January 2007	45	-	45	-	-	45	-	-	-
El Andrews	111	7	118	-	31	149	77	76	153
GD Burbidge									
resigned 31 March 2007	113	1	114	100	10	224	109	10	119
MA Eve	32	-	32	-	-	32	36	-	36
Non-Executive									
JE Higham	20	-	20	-	-	20	20	-	20
AM Howarth	30	-	30	-	-	30	28	-	28
NN Graham Maw									
deceased 12 April 2005	-	-	-	-	-	-	3	-	3
	351	8	359	100	41	500	273	86	359

The highest paid director was El Andrews (2006 GD Burbidge)

D Pye is employed under a service agreement which can be terminated at any time by either the director or the company giving six months' prior notice. El Andrews is employed under a service agreement which can be terminated at any time giving six months' prior notice by the director and twelve months' notice by the Company. The services of AM Howarth and JE Higham are secured by letters of appointment, and these appointments can be terminated by the Company in general meeting at any time. The services of GD Burbidge terminated on 31 March 2007 and the services of MA Eve terminated on 11 May 2007.

(b) Directors' pension entitlements

During the year, two directors were members of money purchase pension schemes (2006 two). Contributions paid by the Company in respect of such directors are shown in part (a) of this note.

(c) Directors' share options and interests

Details of directors' share options and interests are shown in the directors' report on pages 10 to 12.

Notes to the Financial Statements

for the year ended 31 March 2007

6 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging

	2007 £'000	2006 £'000
Auditors' remuneration		
– for audit services		
Consolidation	9	8
Company	5	5
UK Subsidiaries	12	11
– for non-audit services (corporation tax services)	2	1
Depreciation and amounts written off tangible fixed assets		
– owned assets	28	17
Operating lease rentals		
– buildings	70	70
– vehicles and computers	5	5

7 Tax on loss on ordinary activities

The tax for the year comprises

	2007 £'000	2006 £'000
UK corporation tax		
Current year	-	-
Prior year	-	2
Deferred taxation	-	-
	-	2
Reconciliation of tax charge		
Loss on ordinary activities before taxation	(313)	(13)
UK corporation tax at the standard rate of 30% (2006 30%)	(95)	(4)
Effect of		
Expenses not deductible for tax purposes	43	47
Depreciation in excess of capital allowances	(5)	(7)
Utilisation of tax losses	(52)	(52)
Losses carried forward	109	18
Current tax charge for year	-	2

At the balance sheet date, the Group had £1,385,000 (2006 £610,000) of losses to carry forward against future profits

8 Loss per share

	Loss 2007 £'000	Weighted average number of shares 2007 '000	Loss per share 2007 p	Profit/ (loss) 2006 £'000	Weighted average number of shares 2006 '000	Profit/ (loss) per share 2006 p
(Loss)/profit for the financial year before goodwill amortisation	(185)	31,692	(0.58)	113	31,700	0.35
Goodwill amortisation (note 9)	(128)	-	(0.40)	(128)	-	(0.40)
Loss for the financial year	(313)	31,692	(0.98)	(15)	31,700	(0.05)
Dilutive effect of options	-	5	-	-	-	-
	(313)	31,697	(0.98)	(15)	31,700	(0.05)

The weighted average number of shares excludes shares held by the Employee Share Benefit Trust

Loss per share before goodwill amortisation is presented as the directors consider that this gives a useful indication of underlying performance. There is no difference in either 2007 or 2006 between the basic and diluted loss per share before goodwill amortisation.

9 Goodwill

The carrying value of goodwill comprises

Cost

At 1 April 2006 and 31 March 2007

Amortisation

At 1 April 2006

Charge for the year

At 31 March 2007

Carrying value at 31 March 2007

Carrying value at 31 March 2006

The goodwill arose on the acquisition of RWP Recruitment Services Limited in 2004

Group
£'000

1,278
207
128
335
943
1,071

Notes to the Financial Statements

for the year ended 31 March 2007

10 Tangible fixed assets

(a) Group

	Leasehold improvements £'000	Computer equipment £'000	Furniture, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
1 April 2006	75	129	61	34	299
Additions	-	10	-	-	10
Disposals	-	-	-	-	-
31 March 2007	75	139	61	34	309
Depreciation					
1 April 2006	71	92	60	21	244
Charge for the year	1	23	1	3	28
Disposals	-	-	-	-	-
31 March 2007	72	115	61	24	272
Net book value 31 March 2007	3	24	-	10	37
Net book value 31 March 2006	4	37	1	13	55

(b) Company

	Leasehold improvements £'000	Computer equipment £'000	Furniture, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
1 April 2006	75	70	52	19	216
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
31 March 2007	75	70	52	19	216
Depreciation					
1 April 2006	71	58	50	11	190
Charge for the year	1	8	1	2	12
Disposals	-	-	-	-	-
31 March 2007	72	66	51	13	202
Net book value 31 March 2007	3	4	1	6	14
Net book value 31 March 2006	4	12	2	8	26

11 Investment in subsidiary undertakings

	Company £'000
Cost	
At 1 April 2006 and 31 March 2007	80
Provision	
At 1 April 2006 and 31 March 2007	80
Net book value 31 March 2007	-
Net book value 1 April 2006	-

	Principal activity	Class of shares held
Consolidated subsidiaries		
Highams Recruitment Services (N E) Limited*	Dormant	Ordinary
Highams Recruitment BV	Recruitment	Ordinary
Highams Recruitment Limited*	Recruitment	Ordinary
RWP Recruitment Services Limited	Dormant	Ordinary
EquationHR Limited	Dormant	Ordinary
Highams Holding BV*	Holding Company	Ordinary
Highams Share Scheme Trustee Limited*	Trustee of Employee Benefit Trust	Ordinary
Highams International Limited*	Holding Company	Ordinary

All subsidiaries are incorporated in the UK other than Highams Recruitment BV and Highams Holding BV which are incorporated in The Netherlands. All subsidiaries are wholly owned. Subsidiaries marked with an asterisk are directly owned by the Company.

12 Debtors amounts falling due within one year

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade debtors	2,707	2,890	-	-
Amounts due from subsidiary undertakings	-	-	3,132	2,860
Other debtors	15	10	15	10
Prepayments and accrued income	214	270	94	75
	2,936	3,170	3,241	2,945

13 Creditors amounts falling due within one year

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Invoice discounting facility	591	300	-	-
Trade creditors	1,300	1,523	80	66
Other taxes and social security costs	276	305	22	10
Accruals and deferred income	266	195	180	62
Other creditors	50	72	40	61
	2,483	2,395	322	199

Notes to the Financial Statements

for the year ended 31 March 2007

14 Derivatives and other financial instruments

The Group's financial instruments comprise borrowings, cash and items such as trade debtors and creditors that arise as a result of normal operations. The Group does not trade in financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group finances its operations through a mixture of retained profit, bank borrowings and invoice discounting. The Group borrows in pounds sterling and euros. The board reviews interest rates on potential borrowings although during the period the Group was not exposed to significant interest rate risk.

Interest rate profile

Cash deposits are non-interest bearing unless placed on money markets at overnight rates. The invoice discounting facilities are charged at 1.65% above the UK base rate.

Foreign currency risk

The Group trades within Europe. Transactions in Europe are generally priced and invoiced in euros.

Currency exposures

The table below shows the Group's currency exposures. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in its functional currency of the operating unit concerned. These exposures were as follows:

	Euro £'000	Total £'000
31 March 2007	208	208
31 March 2006	88	88

Maturity of financial liabilities

The overdraft facility is repayable on demand.

Borrowing facilities

The Group has an overdraft facility of £1,000,000 (net nil) (2006: gross £1,000,000 (net nil)) and a confidential invoice discounting facility of £1,750,000 (2006: £1,750,000). Both facilities are Group cross guaranteed. At 31 March 2007 the Group's use of the combined facilities was £591,000 (2006: £300,000).

Fair values

The fair values of the financial assets and liabilities at 31 March 2007 and 31 March 2006 are not materially different from their book values.

15 Provision for liabilities and charges

A deferred taxation asset has not been created because tax losses carried forward are not expected to be relieved in the foreseeable future.

The deferred tax asset not being recognised is valued at £418,427 (2006: £362,388).

16 Share capital

(a) Summary

	Authorised		Authorised	
	2007 Number	2006 Number	2007 £'000	2006 £'000
Ordinary 5p shares	42,921,300	42,921,300	2,146	2,146

	Allotted, called up and fully paid		Allotted, called up and fully paid	
	2007 Number	2006 Number	2007 £'000	2006 £'000
Ordinary 5p shares	31,875,568	31,875,568	1,594	1,594

(b) Contingent rights to the allotment of shares

As at 31 March 2007, options have been granted in respect of 1,931,700 (2006: 160,399) of the Company's ordinary 5p shares under the Company's EMI share option scheme to subscribe for ordinary shares of the Company as detailed in note 21. Options on 160,399 shares lapsed during the year.

17 Reconciliation of movements in shareholders' funds

(a) Group

	Share capital £'000	Share premium £'000	Merger reserve £'000	Employee share benefit reserve £'000	Profit and loss account £'000	Total £'000
Opening shareholders' funds	1,594	679	90	(61)	(328)	1,974
Loss for the year	-	-	-	-	(313)	(313)
Closing shareholders' funds	1,594	679	90	(61)	(641)	1,661

(b) Company

	Share capital £'000	Share premium £'000	Merger reserve £'000	Employee share benefit reserve £'000	Profit and loss account £'000	Total £'000
Opening shareholders' funds	1,594	679	297	(61)	265	2,774
Profit for the year	-	-	-	-	173	173
Closing shareholders' funds	1,594	679	297	(61)	438	2,947

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been included in these accounts. The profit of the Company for the year ended 31 March 2006 was £172,000.

Notes to the Financial Statements

for the year ended 31 March 2007

18 Net cash flow from operating activities

	2007 £'000	2006 £'000
Operating (loss)/profit	(248)	64
Depreciation of tangible fixed assets	28	17
Goodwill amortisation	128	128
Decrease/(increase) in debtors	234	(261)
(Decrease)/increase in creditors	(203)	508
Profit on disposal of fixed assets	-	3
Exchange difference	-	(1)
Net cash (outflow)/inflow from operating activities	(61)	458

19 Analysis and reconciliation of net debt

Analysis of changes in net debt

	1 April 2006 £'000	Cash flow £'000	31 March 2007 £'000
Cash at bank and in hand	73	155	228
Invoice discounting facility	(300)	(291)	(591)
Net debt	(227)	(136)	(363)

Cash at bank and in hand includes £2,368 (2006 £2,368) in respect of monies held in the Employee Share Benefit Trust

Reconciliation of net cash flow to movement in net debt

	2007 £'000	2006 £'000
Cash inflow/(outflow)	155	(174)
(Decrease)/increase in invoice discounting facility	(291)	478
Net debt at beginning of year	(136)	304
	(227)	(531)
Net debt at end of year	(363)	(227)

20 Financial commitments

Group

	Land and buildings 2007 £'000	Other 2007 £'000	Land and buildings 2006 £'000	Other 2006 £'000
Annual commitments under non-cancellable operating leases expiring				
Within one year	-	-	-	5
Between 2 and 5 years	70	27	70	22
	70	27	70	27

Company

	Land and buildings 2007 £'000	Other 2007 £'000	Land and buildings 2006 £'000	Other 2006 £'000
Annual commitments under non-cancellable operating leases expiring				
Within one year	-	-	-	-
Between 2 and 5 years	70	27	70	22
	70	27	70	22

21 Employee Share Schemes

(a) Approved Employee Share Option Scheme

The Company adopted an HM Revenue & Customs approved Executive Share Option Scheme on 17 May 1996. At 31 March 2007 all options previously granted have lapsed. The number of options in existence at 31 March 2006 was 141,068, and the weighted average exercise price was 95p. The scheme terminated on 17 May 2006, without any options being exercised.

(b) Unapproved Employee Share Option Scheme

The Company adopted an Employee Share Option Scheme on 15 November 1995 which is not approved by HM Revenue & Customs. Under the terms of this scheme, certain employees of the Company were granted options over ordinary shares. The number of options in existence at 31 March 2006 was 19,331, and the weighted average exercise price was 80p. All options previously granted have lapsed.

(c) EMI Option Scheme

The Company adopted an EMI (Enterprise Management Incentive) scheme and granted 779,220 shares as at 8 September 2000. All of these options had lapsed prior to the beginning of the year.

Notes to the Financial Statements

for the year ended 31 March 2007

21 Employee Share Schemes *continued*

The scheme was amended with effect from 29 March 2007 in order to reflect legislative changes since the scheme's creation. Options over 1,931,700 ordinary shares were granted on 30 March 2007 at an exercise price of 5.125 pence per share. These options will vest in full if the gross profit of the Group for the year ended 31 March 2008 exceeds the gross profit for the year ended 31 March 2007 by £600,000 or more. If this increase in gross profit is not achieved, one third of the options will instead vest on an increase in gross profit of £500,000 or more over the same period. The options will lapse to the extent that these performance targets are not achieved. Vested options are exercisable after 30 March 2010.

Valuation

Options were valued by using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations, the relevant options are not subject to total shareholder return performance conditions. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

Grant date	30 March 2007
Share price at grant date	5.125p
Vesting period	3 years
Expected volatility	65%
Option life	10 years
Expected life	3.5 years
Risk free rate	5.2986%
Dividend yield	0%
Fair value per option	1.776p

The expected volatility is based on historical volatility since January 2000. The expected life is the expected period to exercise. The risk free rate of return is the UK Gilts rate on date of grant consistent with the assumed option life.

Given that the options were not granted until 30 March 2007, the charge to the profit and loss account for the year is £30 (2006: £nil).

(d) All Employee Share Ownership Plan

The Company has adopted an HM Revenue & Customs approved share scheme in which no shares had been granted as at 31 March 2007.

(e) 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 the Company's discretion, upon such terms as they think fit and to purchase such shares to be acquired by the eligible employees.

In accordance with UITF 38 the cost of shares acquired by the Trust are included in the sponsoring company's shareholders' funds.

The Company did not make any contributions to the Trust during the year (2006: £nil). The Trust holds 183,953 shares in the Company, with a market value of £9,428 (2006: 183,953 shares at a market value of £8,565).

No shares have been transferred to employees or were under option as at 31 March 2007. The Trust's only other asset at 31 March 2007 was cash at bank of £2,368 (2006: £2,368) 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

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Results					
Turnover	16,286	17,997	13,512	8,559	11,096
Operating (loss)/profit - continuing operations	(248)	64	(486)	(507)	(208)
Operating profit - discontinued operations	-	-	-	20	-
Loss on ordinary activities before taxation	(313)	(13)	(511)	(293)	(190)
Loss for the financial year after taxation	(313)	(15)	(502)	(293)	(190)
Dividends	-	-	-	-	-
Assets employed					
Goodwill	943	1,071	1,199	-	-
Tangible fixed assets	37	55	46	99	80
Net current assets	681	848	747	1,694	2,000
Net assets	1,661	1,974	1,992	1,793	2,080
Financed by					
Shareholders' funds	1,661	1,974	1,992	1,793	2,080
Key statistics					
(Loss)/profit per share before goodwill amortisation and exceptional costs	(0 58p)	0 35p	(0 83p)	(2 05p)	(0 98p)
Loss per share	(0 98p)	(0 05p)	(1 86p)	(1 51p)	(0 98p)
Return on shareholders' funds *	(18 8%)	(0 8%)	(25 2%)	(16 3%)	(9 1%)
Return on assets employed **	(34 5%)	7 1%	(61 3%)	(27 2%)	(10 0%)

Note

* Loss for the financial year/closing shareholders' funds

** Operating result/net assets excluding goodwill

Notice of Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Charles Stanley & Company Limited, 25 Luke Street, London, EC2A 4AR on Wednesday 5 September 2007 at 11.30 a.m. in order to transact the following business

Ordinary Business

Resolution 1 To receive and adopt the financial statements and the reports of the Directors and the Auditors for the financial year ended 31 March 2007

Resolution 2 To re-elect Alan Miles Howarth, who retires by rotation, as a Director of the Company

Resolution 3 To elect Dave Pye as a Director of the Company

Resolution 4 To reappoint BDO Stoy Hayward LLP as Auditors of the Company and to authorise the Board to fix their remuneration

Special Business

To consider and, if thought fit, pass the following resolutions as Ordinary and Special Resolutions. In the case of resolution 5 as an ordinary resolution, and in the case of resolution 6 as a special resolution

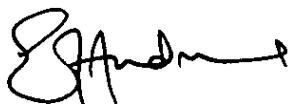
Ordinary Resolution

Resolution 5 That the directors be and are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in the Act) up to an aggregate nominal amount of £531,260 and within that period to make any offer or agreement which would or might require such securities to be allotted after the expiry of this authority and all authorities previously conferred on the directors pursuant to section 80 of the Act be and are hereby revoked. This authority shall expire on whichever is the earlier of the conclusion of the Annual General Meeting to be held in 2008 or the date falling 15 months from the passing of this Resolution, and

Special Resolution

Resolution 6 That the directors be and are hereby empowered to allot equity securities (within the meaning of section 94 of the Act) pursuant to the general authority for the purposes of section 80 of the Act conferred by Resolution 5 above up to the aggregate nominal amount of £79,688 as if section 89(1) of the Act did not apply to such allotment and the Company may make an offer or agreement which would or might require such securities to be allotted after the expiry of the authority and all authorities previously conferred on the directors pursuant to section 95 of the Act be and are hereby revoked. This authority shall expire on whichever is the earlier of the conclusion of the Annual General Meeting to be held in 2008 or the date falling 15 months from the passing of this Resolution

By order of the Board
El Andrews
Secretary
23 July 2007



Registered Office
Quadrant House
33-45 Croydon Road
Caterham
Surrey
CR3 6PB

Notes

- (a) A member entitled to attend and vote may appoint a proxy to attend and vote instead. A proxy need not be a member of the Company. A form of proxy is enclosed which, to be valid, must be delivered to the Company's registrars Capita Registrars (Proxies), Proxy Processing Centre, Telford Road, Bicester, OX26 4LD so as to be received no less than 48 hours (excluding weekends and bank holidays) before the time appointed for holding the Annual General Meeting or any adjournment thereof. Lodgement of a form of proxy will not prevent a member from attending and voting in person if so desired.
- (b) The Register of Directors' interests in the shares of the Company will be available for inspection throughout the meeting and at the registered office of the Company during normal business hours.
- (c) To be entitled to attend and vote at the meeting (and for the purpose of determining the number of votes shareholders may cast), shareholders must be entered on the Company's Register of Members not later than 6.00pm on 3 September 2007 or, if the meeting is adjourned, shareholders must be entered on the Company's Register of Members not later than 48 hours (excluding weekends and bank holidays) before the time fixed for the adjourned meeting.
- (d) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Register of Members of the Company as at 6.00pm on 3 September 2007 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their names at that time. Changes to entries in the Register of Members after 6.00pm on 3 September 2007 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

Financial Calendar

Last date and time for receipt of proxy for the Annual General Meeting	11 30 a m on 3 September 2007
Annual General Meeting	11 30 a m on 5 September 2007