

Talent matters

Highams Systems Services Group plc
is a business and technology recruitment consultancy,
specialising in the insurance sector

THURSDAY



A6DWN3M1

A47

02/10/2008

103

COMPANIES HOUSE

Highams Systems Services Group plc
Quadrant House
33/45 Croydon Road
Caterham, Surrey CR3 6PB UK

T +44 (0) 1883 341144
F +44 (0) 1883 346699
E info@highams.com
www.highams.com

Group at a glance

Our Markets

Highams provides technology resource to the insurance sector on a contract, interim and permanent basis. It also provides resource to a few select asset and fund management companies. Highams' main client base ranges from large insurance organisations such as Towergate, Aviva and LV to specialist, niche companies such as Crawfords, Liss Systems and Duck Creek. Highams is also responsible for *bluefuse*, the online insurance business network.

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.

Contents

	Page
Operating and financial highlights	1
Chairman and Chief Executive's statement	2
Directors	3
Directors and advisers	4
Report of the Directors	5-7
Statement of Directors' responsibilities	8
Corporate governance	9
Directors' remuneration report	10
Independent auditor's report	12
Consolidated income statement	14
Consolidated statement of recognised income and expense	15
Consolidated balance sheet	16
Consolidated cash flow statement	17
Notes to the financial statements	18-34
Company balance sheet	35
Notes to the company financial statements	36-39
Financial calendar	40

Operating and financial highlights

	2008 £'000	2007 £'000
Revenue	13,606	16,286
Gross profit	2,125	2,165
Operating loss for the financial year	(1,841)	(120)
Operating loss for the financial year before impairment of goodwill	(770)	(120)
Loss for the financial year before tax	(1,922)	(185)
Net current (liabilities)/assets	(160)	681
Equity	(129)	1,789
Loss per share	(6.06)p	(0.58)p
Loss per share before impairment of goodwill	(2.69)p	(0.58)p

Operational

- 33 new customers secured
- Launch of *bluefuse*, insurance community business network
- Increase in permanent revenue by 10.6%
- London office making progress with city clients
- Finalist 2007 and 2008 Computing awards for excellence Best Recruitment Consultancy
- Gross margin % increased second year running

Chairman and Chief Executive's statement

Introduction

This has been a demanding year and Highams has not been immune from the various challenges faced by others in our sector, which has had a negative impact on our financial performance. In the financial year, Highams embarked on an extensive revitalising of the brand with a view to seeking new clients and winning higher margin business in its chosen market sector. The Group also realised that it needed to engage on a turnaround programme to effect significant cost reduction. Both of these drivers have laid the sound foundation for the recommendations contained in the attached documentation.

The revitalising of the Highams brand and our business operations through a range of initiatives which include, among other things, the opening of a London office at the iconic 'Gherkin' and close to our core insurance customer base, the establishment and growing influence of *bluefuse*, our online business network created to promote and support IT professionals in the insurance sector and a range of other initiatives, have helped to secure the winning of a substantial number of new and higher margin clients.

As the Group advised on 8 July 2008, we expected to see our major investments of the first half of the financial year start to make an impact in the second half, but with the benefit of the investment becoming more clearly evident in the current financial year. While there is some solid improvement seen in the Group's performance in the second half of the financial year as evidenced by the improvement in the gross margin percentage achieved, the Board recognised that it must continue to 'attack' costs, drive sales and deliver better quality earnings as a result of the focus on higher margin business. Losses have been reducing substantially quarter by quarter and that progress has continued into the new financial year with a first quarter loss of £42,000 in comparison to a loss of £160,000 in the first quarter of 2007.

Financial Results

Group revenue fell by 16.6 per cent to £13.6m (2007: £16.3m) as the Group undertook a reduced volume of low-margin contract business.

Gross profit was virtually unchanged at £2.1m (2007: £2.2m). This represents 15.6% of revenue, which is a significant improvement when compared to 13.3% in 2007.

Group loss before taxation and impairment was £851,000 (2007: loss of £185,000).

The loss before tax but after impairment was £1,922,000 (2007: loss of £185,000).

The Directors are not recommending the payment of a final dividend for the year to 31 March 2008 (2007: nil).

Executives and Staff

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

Post Year-end

Since the year-end, the Board also announced that it was undertaking a further review of all aspects of the Company's operations to see how best it could improve performance. This review is now complete and the culmination of that process lies in the fund raising and board changes that we are announcing and are detailed in the circular, which is being posted to shareholders along with copies of the Group's Report & Accounts for the year ended 31 March 2008.

We are delighted to report that after considerable effort and the Board's consideration of a wide range of options, a successful outcome has been achieved. We believe that the placing and changes to the Board offer Highams an excellent platform upon which to further develop its business and we look forward to the Company's future with confidence.

Alan Howarth
Chairman
30 September 2008

Dave Pye
Chief Executive
30 September 2008



Directors

Alan Miles Howarth

Non-Executive Chairman

Alan, aged 62, 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 Chamberlin & Hill plc, CRF Inc, Aditi plc and various interests in public bodies and smaller private concerns.

Dave Pye

Chief Executive Officer

Dave, aged 43, 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.

Edward Ian Andrews

Chief Operating Officer

Ted, aged 56, 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.

John Edward Higham

ACII Non-Executive Director and Deputy Chairman

John, aged 63, 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

Company Registration Number	1700310
Registered Office	Quadrant House 33/45 Croydon Road Caterham Surrey CR3 6PB
Directors	AM Howarth (<i>Chairman</i>) D Pye (<i>Chief Executive Officer</i>) EI Andrews (<i>Chief Operating Officer</i>) JE Higham (<i>Non-executive</i>)
Secretary	EI Andrews
Bankers	The Royal Bank of Scotland plc Turnpike House 123 High Street Crawley West Sussex RH10 1DQ
Nominated Adviser	Charles Stanley Securities 25 Luke Street London EC2A 4AR
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA
Solicitors	Eversheds LLP One Wood Street London EC2V 7WS
Auditors	BDO Stoy Hayward LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA

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 2008

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 introduction of the Chairman and Chief Executives' Statement

Results and Dividends

The Group recorded a loss before taxation and goodwill impairment of £851,000 (2007: loss before taxation and goodwill impairment £185,000) on a revenue of £13.6m (2007: £16.3m)

The directors do not recommend a final dividend (2007: nil). No interim dividend was paid during the year (2007: nil)

Review of Business

Following a year of significant effort and investment in re-energising the Highams brand and business operations, there is now a markedly increased awareness of Highams and its services within our core sectors. However, as the Group advised on 8 July 2008, Highams expected to see its major investments of the first half of the year start to make an impact in the second half, but with the benefit of this investment becoming more clearly evident in the current financial year.

Improvement has been made in the Group's performance in the second half of the financial year and our strategy of improving the quality of business we undertake has progressed well as evidenced by the improvement in the gross margin percentage achieved. However, our final results for the period continue to reflect the costs of these investments and our move towards higher value business.

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.

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. Gross profit reduced by £40,000 during the period, though average gross margin increased encouragingly from 13.3% to 15.6%, the second significant increase in the last two years.

Highams remains unusual in the recruitment business for maintaining a number of long-term employees. This financial year more than 50% of our people have been with us for more than 3 years and more than one third of our people have been with us for 5 years or more.

Our *bluefuse* business network site was created at the beginning of the year. To date it has more than 450 top tier insurance professionals registered and connecting with each other.

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. The Group has a bank offset arrangement in place. The net borrowing on the invoice discounting bears interest on a variable rate basis. Increase in bank base rates will therefore increase finance costs of the business.

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. The Group is arranging a Placing to ensure its working capital requirements for the foreseeable future are met. Whilst the Group understands that this placing has the necessary support from investors, were the Placing to fail to meet its objectives, the Group would need to secure alternative funds to ensure it remained a going concern.

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

Despite the current economic climate and turmoil in the financial services sector which has increased the Group's credit risk, no significant issues have arisen to date. However, credit ratings provided by credit rating agencies are obtained for all non 'blue chip' clients.

Details of the Group's financial instruments are given in note 21 to the financial statements.

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 service with someone who has a detailed knowledge of their needs, a big factor in helping retain clients.

In the current economic climate, it is anticipated that clients may freeze or reduce their permanent head counts. Experience of previous economic slow-downs suggests that this results in an increased uptake in contract staff. If the economic slow-down is of a long duration and affects the whole economy, this might result in reduced permanent and contract requirements. All of our top 20 clients were maintained in the period.

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.

Applicants and Contractors

Given that the permanent applicants and contractors have many recruitment organisations from which to choose, 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.

Directors

The directors of the Company are set out on page 3. Directors' interest in shares. The persons who held the office of director at 31 March 2008 had the following interests in fully paid ordinary 5p shares of the Company at the beginning and end of the financial year.

	31 March 2008		1 April 2007	
	Shares	Options	Shares	Options
El Andrews	3,570,000	–	3,570,000	–
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 and had lapsed as at 31 March 2008
- 3 AM Howarth has no interests in shares of the Company

As at 9 September 2008, there have been no changes to serving Directors' interests in shares as reported at 31 March 2008

Substantial shareholders

As at 9 September 2008, the following substantial shareholdings have been notified to the Company

	Number of shares	% of issued Share Capital
JE Higham	7,467,649	23.43%
John Higham Family Trust	1,230,000	3.86%
El Andrews	3,570,000	11.20%
Resource Solutions Group	1,675,000	5.25%
Brewin Nominees Limited	1,302,300	4.09%
Teawood Nominees Limited	1,250,000	3.92%

Share option schemes

Information regarding the Company's share option schemes is given in note 23 to the financial statements

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 and other payables days figure at 31 March 2008 was 25 (2007: 36).

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 charitable donations of £3,150 (2007: nil). There were no political donations (2007: nil).

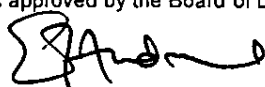
Auditors

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 30 September 2008.

El Andrews
Company Secretary



Statement of Directors' responsibilities

Directors' responsibilities for the financial statements

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the company in accordance with UK Generally Accepted Accounting Practice

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

Parent company financial statements

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

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

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 action 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 Auditors Independence: guidance for audit committee". 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 function 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 10.

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 financial statements. Further consideration has been provided in note 2.

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 8 which forms part of the audited financial statements. The members of the remuneration committee (Remcom) are identified on page 9.

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 discussions 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 23 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.

The targets were not satisfied in the year.

Pensions

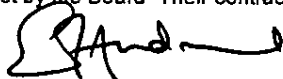
The group operates a defined contribution pension scheme, the contributions to which are set out in note 8 to the financial statements.

Service Contract of the executive directors

El 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 an agreement that can be terminated on 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.



E I Andrews
Company Secretary

Independent auditor's report

To the shareholders of Highams Systems Services Group plc

We have audited the group financial statements of Highams Systems Services Group plc for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes and the parent company financial statements which comprise the Company Balance Sheet and the related notes (together "the financial statements") 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 Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company 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 The other information comprises only the Group at a Glance, the Operating and Financial Highlights, the Chairman and Chief Executives' Statement, Corporate Governance and the Directors' Remuneration Report 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 IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 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 2008,
- 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

30 September 2008

BDO Stoy Hayward LLP

Consolidated income statement

For the year ended 31 March 2008

	Note	2008 £'000	2007 £'000
Revenue	5	13,606	16,286
Cost of sales		(11,481)	(14,121)
Gross profit		2,125	2,165
Administrative costs			
Other administrative costs		(2,895)	(2,285)
Goodwill impairment		(1,071)	—
Total		(3,966)	(2,285)
Operating loss		(1,841)	(120)
Finance income	6a	3	-
Finance costs	6b	(84)	(65)
Loss before tax		(1,922)	(185)
Tax expense	10	—	—
Loss for the period attributable to equity shareholders		(1,922)	(185)
Loss per share			
Basic and diluted loss per share from continuing operations	11	(6.06)p	(0.58)p

All of the above relate to continuing operations

Consolidated statement of recognised income and expense

For the year ended 31 March 2008

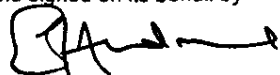
	2008 £'000	2007 £ 000
Loss for the period	(1,922)	(185)
Foreign currency translation difference	4	–
Total recognised income and expense for the period attributable to equity shareholders	(1,918)	(185)

Consolidated balance sheet

At 31 March 2008

	Note	2008 £'000	2007 £'000
Assets			
Non-current assets			
Goodwill	12	—	1,071
Other intangible assets	13	11	10
Property, plant and equipment	14	20	27
Total		31	1,108
Current assets			
Trade and other receivables	15	2,273	2,936
Cash and cash equivalents		—	228
Total		2,273	3,164
Total assets		2,304	4,272
Current liabilities			
Trade and other payables	16	(1,237)	(1,892)
Borrowings	17	(1,196)	(591)
Total		(2,433)	(2,483)
Net (liabilities)/assets		(129)	1,789
Equity			
Share capital	22	1,594	1,594
Share premium account	24	679	679
Merger reserve	24	90	90
Employee share benefit trust reserve	24	(61)	(61)
Currency reserve	24	4	—
Retained earnings	24	(2,435)	(513)
Total equity		(129)	1,789

The financial statements were approved and authorised for issue by the Board of Directors on 30 September 2008 and signed on its behalf by



E I Andrews, Director



J E Higham, Director

Consolidated cash flow statement

For the year ended 31 March 2008

	2008 £'000	2007 £'000
Operating activities		
Loss for the year after tax	(1,922)	(185)
Depreciation of property, plant and equipment	13	17
Amortisation of intangible assets	13	11
Impairment of goodwill	1,071	–
Finance costs	81	65
Changes in trade and other receivables	662	234
Change in trade and other payables	(650)	(203)
Net cash used in operating activities	(732)	(61)
Cash flows from investing activities		
Purchase of property, plant and equipment	(6)	(4)
Purchase of intangible assets	(14)	(6)
Interest received	3	–
Net cash used in investing activities	(17)	(10)
Financing activities		
Increase in borrowings	605	291
Interest paid	(84)	(65)
Net cash from financing activities	521	226
Net changes in cash and cash equivalents	(228)	155
Cash and cash equivalents, beginning of year	228	73
Cash and cash equivalents, end of year	–	228

Notes to the financial statements

For the year ended 31 March 2008

1 Nature of operations and general information

Highams Systems Services Group plc and its subsidiaries' principal activity is the provision of contract and permanent IT recruitment services, mainly in the insurance, investment management and financial sectors

Highams Systems Services Group plc, a limited liability company, is the Group's ultimate parent company. It is registered in England and Wales. The address of Highams Systems Services Group plc's registered office, which is also its principal place of business, is Quadrant House, 33/45 Croydon Road, Caterham, Surrey CR3 6PB. The details of subsidiary undertakings are listed in Note 6 to the Company Financial Statements.

The financial statements for the year ended 31 March 2008 (including the restated comparatives for the year ended 31 March 2007) were approved by the Board of Directors on 30 September 2008.

Highams Systems Services Group plc's shares are listed on the London Stock Exchange's Alternative Investment Market (AIM). Highams Systems Services Group plc's consolidated full year financial statements are presented in British pounds (£), which is also the functional currency of the ultimate parent company.

2 Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements have been prepared under the historical cost convention. The principal accounting policies of the group are set out below.

The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in note 3, together with the reconciliation of opening balances. The date of transition to IFRS was 1 April 2006 (transition date).

The group has taken advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. The exemptions used are explained under the respective accounting policy.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements.

Going concern

The financial statements have been prepared on a going concern basis. In considering the appropriateness of the going concern assumption, the directors have taken into consideration the placing of shares for cash referred to in the Chairman and Chief Executive's statement on page 2. As at the date of approval of these financial statements the directors are in possession of irrevocable undertakings in respect of shares representing estimated placing proceeds, net of costs, of £555,000. They have therefore concluded that as a result, the company will have sufficient funds to provide, inter alia, adequate working capital to the Group.

Basis of consolidation

The group financial statements consolidate those of the company and all of its subsidiary undertakings drawn up to 31 March 2008. Subsidiaries are entities over which the group has the power to control the financial and operating policies so as to obtain benefits from its activities. The group obtains and exercises control through voting rights.

Unrealised gains on transactions between the group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Business combinations completed prior to date of transition to IFRS

The group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 April 2006.

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. The carrying amount of capitalised goodwill at 31 March 2006 that arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 April 2006.

Revenue

Revenue 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 represents any excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired for acquisitions after 31 March 2006, together with goodwill recognised on transition to IFRS on 1 April 2006.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses.

Other intangible assets

Computer software included at cost is amortised on a straight line basis over its useful economic life. The amortisation charge is shown within administrative expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost net of accumulated depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of property, plant and equipment over their estimated useful lives at the following rates:

Leasehold improvements	– over remaining period of lease on a straight-line basis
Computer equipment	– 50% per annum on a straight-line basis
Furniture, fittings and office equipment	– 25% per annum on a straight-line basis
Motor vehicles	– 25% per annum on a reducing balance basis

Impairment testing of goodwill, other intangible assets and property, plant and equipment

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually on 31 March. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount the asset is written down immediately.

Notes to the financial statements continued

For the year ended 31 March 2008

2 Accounting policies continued

Leased assets

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term
All of the Group's current leases are operating leases

Taxation

Current tax is the tax currently payable based on taxable profit for the year

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on

- the initial recognition of goodwill,
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit, and
- investments in subsidiaries and jointly controlled entities where the group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future

Deferred tax assets are recognised in the balance sheet only where it is probable that taxable profit will be available against which the difference can be utilised

Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date

Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") 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. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement

On consolidation the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at rates of exchange ruling on the balance sheet date. Exchange differences arising from this policy are recognised directly in the currency reserve

The group has taken advantage of the exemption in IFRS 1 and has deemed cumulative translation differences for all foreign operations to be nil at the date of transition to IFRS. The gain or loss on disposal of these operations excludes translation differences that arose before the date of transition to IFRS and includes later translation differences

Pension costs

The Group operates a defined contribution pension scheme. The pension cost expensed to the income statement represents contributions payable by the Group to the pension scheme in the period

Financial assets

All of the Group's financial assets are categorised as loans and receivables. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available

The Group's financial assets comprise trade receivables, other receivables, cash and cash equivalents. Trade and other receivables are measured initially at fair value and subsequently at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the group becomes a party to the contractual provisions of the instrument. The Group's financial liabilities comprise trade payables, other payables, and an interest bearing confidential invoice discounting facility. All financial liabilities are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts are included within current liabilities unless there is a right of offset with cash balances.

Employee share benefit trust

The cost of the company's shares held by the employee share benefit trust is deducted from equity in the consolidated balance sheet. Any cash received by the employee share benefit trust on disposal of the shares it holds is also recognised directly in equity. Other assets and liabilities of the employee share benefit trust, (including borrowings) are recognised as assets and liabilities of the group. 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.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Merger reserve" represents the difference between the value of shares and the nominal value in accordance with the requirements of Merger Relief under the Companies Act 1985.
- "Employee share benefit trust reserve" represents the cost of the company's shares held by the employee share benefit trust.
- "Currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Retained earnings" represents retained profits less accumulated losses.

Notes to the financial statements continued

For the year ended 31 March 2008

2 Accounting policies continued

Standards and interpretations currently in issue but not yet effective

The following new Standards and Interpretations, which are yet to become mandatory, have not been applied in the consolidated financial statements

- IAS 1 Presentation of Financial Statements (revised 2007) (effective 1 January 2009)
- IAS 23 Borrowing Costs (revised 2007) (effective 1 January 2009)
- Amendment to IAS 32 Financial Instruments Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
- IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1 July 2009)
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1 January 2009)
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 January 2009)
- Amendment to IAS 39 Financial Instruments Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009)
- Improvements to IFRSs (effective 1 January 2009 other than certain amendments effective 1 July 2009)
- IFRS 3 Business Combinations (Revised 2008) (effective 1 July 2009)
- IFRS 8 Operating Segments (effective 1 January 2009)
- IFRIC 12 Service Concession Arrangements (effective 1 January 2008)
- IFRIC 13 Customer Loyalty Programmes (effective 1 July 2008)
- IFRIC 14, IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1 January 2008)
- IFRIC 15 Agreements for the Construction of Real Estate (effective 1 January 2009)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008)

Based on the Group's current business model and accounting policies, management does not expect material impacts on the consolidated financial statements when the Interpretations become effective, except the amendment to IAS 1 and IFRS 8 that will impact on the presentation of the financial statements. The Group does not intend to apply any of these pronouncements early.

3 Transition to IFRS

Overall considerations

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its financial statements. The Group established its IFRS accounting policies on its transition date, 1 April 2006, and applied these to the IFRS opening balance sheet at its date of transition, 1 April 2007. The principal changes to UK GAAP accounting policies are

IFRS 3 *Business Combinations* requires that goodwill be subject to annual impairment reviews rather than amortisation. IFRS 3 also prohibited the amortisation of goodwill, resulting in a reversal of 2007 amortisation previously recognised under UK GAAP. Amortisation pre-transition is not reversed, in line with the IFRS 1 exemption applied to pre-transition business combinations.

The net effect in the Consolidated Income Statement for the comparative year may be summarised as follows

	2007 £ 000
Net loss for the year	
Under UK GAAP	(313)
Elimination of amortisation of goodwill	128
Restated under IFRS	(185)

The net effect on the Consolidated Balance Sheet may be summarised as follows

	Under UK GAAP £'000	Amortisation of goodwill £ 000	Restated under IFRS £ 000
Equity			
1 April 2006	1,974	-	1,974
31 March 2007	1,661	128	1,789

4 Critical accounting judgements and estimates

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The group does not consider that there are any estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

5 Segment reporting

Management consider that there is one primary business segment being the provision of contract and permanent IT recruitment services. A secondary geographical segmental analysis is set out below.

The Group makes sales to a variety of global destinations. An analysis of sales revenue by geographical market is given below.

	Revenue by origin		Revenue by destination	
	2008 £'000	2007 £'000	2008 £'000	2007 £ 000
United Kingdom	13,441	16,094	11,896	15,051
Rest of World	165	192	1,710	1,235
	13,606	16,286	13,606	16,286

Assets and capital expenditure based on the geographical location of the assets are as follows

	Assets		Capital expenditure	
	2008 £'000	2007 £ 000	2008 £'000	2007 £ 000
United Kingdom	2,269	4,187	20	10
The Netherlands	35	85	-	-
	2,304	4,272	20	10

Notes to the financial statements continued

For the year ended 31 March 2008

6 Finance costs

(a) Finance income

	2008 £'000	2007 £'000
Bank deposit interest	3	–

(b) Finance costs

	2008 £'000	2007 £'000
Invoice discounting facility	81	62
Other	3	3
	84	65

7 Employees' remuneration

(a) Staff costs

Staff costs, including Executive Directors, during the year were as follows

	2008 £'000	2007 £'000
Wages and salaries	1,592	1,339
Social security costs	174	139
Other pension costs	51	60
	1,817	1,538

(b) Staff numbers

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

	2008 Number	2007 Number
Sales	25	19
Finance and administration	6	5
Management	7	5
	38	29

8 Directors' remuneration

Aggregate remuneration

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

	2008 £'000	2007 £'000
Emoluments	345	359
Compensation for loss of office	15	100
Money purchase pension contributions	31	41
	391	500

(a) Directors' remuneration

	Fees/basic salary 2008 £'000	Taxable benefits 2008 £'000	Total emoluments 2008 £'000	Severance payment 2008 £'000	Money purchase pension contributions 2008 £'000	Total 2008 £'000
D Pye	188	1	189	–	–	189
EI Andrews	97	8	105	–	31	136
MA Eve (resigned 11 May 2007)	1	–	1	15	–	16
Non executive						
JE Higham	20	–	20	–	–	20
AM Howarth	30	–	30	–	–	30
Aggregate emoluments	336	9	345	15	31	391

	Total Emoluments 2007 £'000	Severance payment 2007 £'000	Money purchase pension contributions 2007 £'000	Total 2007 £'000
D Pye	45	–	–	45
EI Andrews	118	–	31	149
GD Burbidge (resigned 31 March 2007)	114	100	10	224
MA Eve (resigned 11 May 2007)	32	–	–	32
Non executive				
JE Higham	20	–	–	20
AM Howarth	30	–	–	30
Aggregate emoluments	359	100	41	500

The highest paid director was D Pye (2007 EI Andrews)

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. EI 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.

(b) Directors' pension entitlements

During the year, one director was a member of money purchase pension schemes (2007 two). Contributions paid by the Company in respect of such directors are shown in part (a) of this note.

Notes to the financial statements continued

For the year ended 31 March 2008

9 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging

	2008 £'000	2007 £'000
The analysis of auditor's remuneration is as follows		
Audit fees payable to the Company's auditor for the audit of		
Company annual accounts	6	5
Group annual accounts	10	9
	16	14
Other fees payable to the Company's auditors		
Subsidiary companies	13	12
Tax compliance	2	2
Tax advisory	7	–
	38	28
Amortisation of intangibles	13	11
Depreciation of property, plant and machinery	13	17
Operating lease rentals		
Property	71	70
Plant and equipment	5	5

10 Income tax expense

The relationship between the expected tax expense based on the effective tax rate of the Group at 30% (2007 30%) and the tax expense actually recognised in the income statement can be reconciled as follows

	2008 £'000	2007 £'000
Result for the year before taxation	(1,922)	(185)
Expected tax expense	(577)	(56)
Expenses not deductible for tax purposes	6	4
Differences between capital allowances and depreciation	5	(5)
Expenses not deductible relating to impairment of goodwill	322	–
Utilisation of tax losses	(56)	(52)
Losses carried forward	300	109
Current tax expense, net	–	–
Comprising		
Current tax charge/(credit) for period	–	–
Deferred tax expense	–	–
	–	–

Please refer to note 19 for information on the entity's deferred tax assets and liabilities

11 Loss per share

	2008			2007		
	Loss £'000	Weighted average number of shares £'000	Loss per share p	Loss £'000	Weighted average number of shares £'000	Loss per share p
Basic loss per share	(1,922)	31,692	(6.06)	(185)	31,692	(0.58)
Impairment of goodwill	1,071			—		
Adjusted loss per share	(851)	31,692	(2.69)	(185)	31,692	(0.58)

The weighted average number of shares excludes 183,953 (2007: 183,953) shares held by the Employee Share Benefit Trust

There is no difference in either 2008 or 2007 between the basic and diluted loss per share

12 Goodwill

The goodwill arose from the acquisition of RWP Recruitment Services Limited in 2004. The business was transferred into an existing group company in 2004 subsequent to the acquisition.

Changes in the net carrying amount of goodwill can be summarised as follows:

	Goodwill on consolidation £'000
Carrying amount at 1 April 2007	1,071
Addition	—
Carrying amount at 31 March 2007	1,071
Addition	—
Impairment loss recognised	(1,071)
Carrying amount at 31 March 2008	—

The recoverable amount for the goodwill arising from the RWP Recruitment acquisition is determined based on value-in-use calculations, at a level identifying the cash inflows from the customer base, nature of assignments and contractors arising from the acquired business. Management prepare detailed five-year cashflow forecasts, with no terminal value, and determine a suitable interest rate in order to calculate the present value of such cashflows, which represents the recoverable amount. Any impairment loss is recognised for the amount by which the asset's or cash generating unit's carrying amount exceeds its recoverable amount and this impairment loss is used to reduce the carrying amount of any goodwill allocated to that cash-generating unit. Due to the loss of the customer base and the absence of forecast cashflows from the specialist contractors a full impairment provision has been recognised in the year. Additionally, the substantial losses incurred by the company in the financial year, the weak state of the Group balance sheet and the poor cash generation make it appropriate to write down the goodwill.

Notes to the financial statements continued

For the year ended 31 March 2008

13 Other intangible assets

The amounts recognised in the balance sheet relate to the following

	2008 £'000	2007 £'000
Software		
Cost		
At 1 April	66	66
Additions	14	–
At 31 March	80	66
Amortisation		
At 1 April	56	45
Charge in year at 31 March	13	11
	69	56
Net book amount		
At 31 March	11	10

14 Property, plant and equipment

	Improvements to property £ 000	Computer equipment £'000	Furniture fittings and office equipment £ 000	Motor vehicles £ 000	Total £ 000
Cost					
At 1 April 2007	75	73	61	34	243
Additions	–	6	–	–	6
Disposals	–	–	–	–	–
At 31 March 2008	75	79	61	34	249
Depreciation					
At 1 April 2007	72	59	61	24	216
Charge for the year	1	10	–	2	13
Disposals	–	–	–	–	–
At 31 March 2008	73	69	61	26	229
Net book value 31 March 2008	2	10	–	8	20

14 Property, plant and equipment continued

	Improvements to property £'000	Computer equipment £'000	Furniture fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2006	75	63	61	34	233
Additions	–	10	–	–	10
Disposals	–	–	–	–	–
At 31 March 2007	75	73	61	34	243
Depreciation					
1 April 2006	71	47	60	21	199
Charge for the year	1	12	1	3	17
Disposals	–	–	–	–	–
At 31 March 2007	72	59	61	24	216
Net book value 31 March 2007	3	14	–	10	27

15 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	2,018	2,707
Other receivables	24	15
Prepayments and accrued income	231	214
	2,273	2,936

All amounts are short-term. The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment and no provision (2007: £nil) has been considered necessary.

Some of the unimpaired trade receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is as follows:

	2008 £'000	2007 £'000
More than one month but not more than 3 months	942	1,206
More than 3 months but not more than 6 months	86	152
More than 6 months but not more than 1 year	–	2
More than one year	1	1
	1,029	1,361

16 Trade and other payables

	2008 £'000	2007 £'000
Trade payables	789	1,300
Other taxes and social security costs	198	276
Other payables	74	50
Accruals and deferred income	176	266
	1,237	1,892

All amounts are short-term. The carrying values are considered to be a reasonable approximation of fair value.

Notes to the financial statements continued

For the year ended 31 March 2008

17 Borrowings

	2008 £'000	2007 £'000
Current liabilities		
Bank overdrafts	169	—
Invoice discounting	1,027	591
	1,196	591

The Group has a confidential invoice discounting facility of £2,000,000 (2007 £1,750,000). The facility is Group cross guaranteed.

18 Leases

Operating leases

The Group leases various offices and equipment under non-cancellable operating leases. The total minimum lease payments under non-cancellable operating leases are as follows:

	2008		2007	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	111	41	70	27
After one year and less than five years	93	53	163	54
After 5 years	—	—	—	—
	204	94	233	81

Lease payments recognised as an expense during the year amount to £110,056 (2007 £108,166). No sublease income is expected as all assets held under lease agreements are used exclusively by the Group.

The rental contract for the office building rented since July 2000 at Caterham has a lease which expires in July 2010. The rental contract for the office building rented since May 2007 at the Gherkin, had a 12 month lease with break clause after 4 and 7 months.

Operating lease agreements do not contain any contingent rent clauses. None of the operating lease agreements contain renewal or purchase options or escalation clauses or any restrictions regarding further leasing.

19 Deferred tax

Deferred tax recognised in the financial statements is set out below:

	2008 £'000	2007 £'000
	—	—

The deferred tax asset not provided in the financial statements is set out below:

	2008 £	2007 £
Losses	(591,879)	(391,222)
Accelerated capital allowances	(5,036)	(29,501)
	(596,915)	(420,723)

A deferred tax asset has not been recognised in respect of these amounts as it is not known whether the recovery of these losses is probable.

20 Related party transactions and controlling related party

The Group's related parties comprise its Board of Directors

21 Financial risk management objectives and policies

Financial instruments

The Group uses various financial instruments, these include cash and cash equivalents, and various items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations.

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk, credit risk and 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 through the invoice discounting facility.

Cash deposits are non-interest bearing unless placed on money markets at overnight rates. The overdraft balances are offset against cash deposits in accordance with the facility and is managed such that no interest cost is incurred. The invoice discounting facilities are charged at 1.65% above the UK base rate. The group is therefore exposed to changes in interest rates primarily through its invoice discounting facility. If the UK bank base increased by 1% finance cost would increase by £12,000.

Liquidity risk

The group manages its liquidity needs by carefully monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands including on a day-to-day and week-to-week basis, as well as on a monthly basis. As at 31 March 2008 all of the Group's financial liabilities are contractually due within 6 months of the balance sheet date. The majority of working capital is provided through the invoice discounting facility, additional draw down of these payments are directly related to the trade receivables. The Group's liquidity needs are assessed periodically and, subsequent to the year end, additional funding will be available following the placing of new shares which will provide adequate liquidity to the Group.

Credit risk

The Group's principal financial assets are cash deposits and trade receivables. Risks associated with cash deposits are limited as they are primarily offset by overdraft.

The principal credit risk lies with trade receivables. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history. The group has historically not suffered from significant bad debt problems. Although the Group's principal bankers are The Royal Bank of Scotland, the Group's invoice discounting facility is held with Lloyds TSB Commercial Finance.

Currency Risk

The Group trades within Europe markets. These transactions are generally priced and invoiced in euros.

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. The exposures were as follows:

	2008 £'000	2007 £'000
Euros	19	208

Notes to the financial statements continued

For the year ended 31 March 2008

22 Share capital

	Authorised			
	2008 Number	2007 Number	2008 £'000	2007 £'000
Ordinary 5p shares	42,921,300	42,921,300	2,146	2,146

	Allotted, called up and fully paid			
	2008 Number	2007 Number	2008 £'000	2007 £'000
Ordinary 5p shares	31,875,568	31,875,568	1,594	1,594

23 Employee share schemes

(a) EMI option scheme

The EMI option scheme was amended with effect from 29 March 2007 in order to reflect legislative changes since the scheme's creation in 2000. Options over 1,931,700 ordinary shares were granted on 30 March 2007 at an exercise price of 5 125 pence per share.

The vesting of these options was contingent on the following conditions, 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 and if this increase in gross profit was not achieved, one third of the options would have instead vested on an increase in gross profit of £500,000 or more over the same period. Neither of these conditions were met during the year and therefore the options have lapsed.

(b) Employee Share Benefit Trust

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

The Company did not make any contributions to the Trust during the year (2007: £nil). The Trust holds 183,953 shares in the Company, with a market value of £9,428 (2007: 183,953 shares at a market value of £9,428).

No shares have been transferred to employees or were under option as at 31 March 2008. The Trust's only other asset at 31 March 2008 was cash at bank of £2,368 (2007: £2,368) which is included in the Group's balance sheet as part of cash and cash equivalents. The Trust had no liabilities.

All other options granted in prior years have lapsed and no other types of options were granted in the year.

24 Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Merger reserve £'000	Employee share benefit reserve £'000	Currency reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2006	1,594	679	90	(61)	—	(328)	1,974
Loss for the year	—	—	—	—	—	(185)	(185)
At 1 April 2007	1,594	679	90	(61)	—	(513)	1,789
Currency adjustments	—	—	—	—	4	—	4
Loss for the year	—	—	—	—	—	(1,922)	(1,922)
At 31 March 2008	1,594	679	90	(61)	4	(2,435)	(129)

25 Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at the balance sheet date of the years under review may also be categorised as follows

	Loans and receivables	Non financial assets	Financial liabilities	Non financial liabilities	Total for balance sheet heading
	2008 £'000	2008 £'000	2008 £'000	2008 £'000	2008 £'000
Balance sheet headings					
Trade receivables	2,018	–	–	–	2,018
Other receivables	8	16	–	–	24
Prepayments	–	231	–	–	231
Trade payables	–	–	(789)	–	(789)
Other taxes and social security costs	–	–	–	(198)	(198)
Other payables	–	–	(74)	–	(74)
Accruals	–	–	(176)	–	(176)
Borrowings	–	–	(1,196)	–	(1,196)
Total	2,026	247	(2,235)	(198)	(160)

	Loans and receivables	Non financial assets	Financial liabilities	Non financial liabilities	Total for balance sheet heading
	2007 £'000	2007 £'000	2007 £'000	2007 £'000	2007 £'000
Balance sheet headings					
Trade receivables	2,707	–	–	–	2,707
Other receivables	15	–	–	–	15
Prepayments	–	214	–	–	214
Cash	228	–	–	–	228
Trade payables	–	–	(1,300)	–	(1,300)
Other taxes and social security costs	–	–	–	(276)	(276)
Other payables	–	–	(50)	–	(50)
Accruals	–	–	(266)	–	(266)
Borrowings	–	–	(591)	–	(591)
Total	2,950	214	(2,207)	(276)	681

The fair values of the financial assets and liabilities at 31 March 2008 and 31 March 2007 are not materially different from their book values

26 Capital management policies and procedures

The Group's capital management objectives are

- to ensure the Group's ability to continue as a going concern, and
- to provide an adequate return to shareholders

by pricing its offerings commensurately with the level of risk

The Group monitors capital on the basis of the carrying amount of equity less cash and cash equivalents as presented on the face of the balance sheet. Capital for the reporting years under review is summarised as follows

Although Highams Systems Services Group plc is not constrained by any externally imposed capital requirements, its goal is to maximise its capital-to-overall financing structure ratio

Notes to the financial statements continued

For the year ended 31 March 2008

26 Capital management policies and procedures continued

The Group sets the amount of capital in proportion to its overall financing structure and manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets

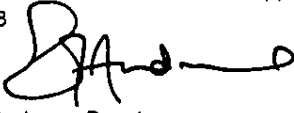
	2008 £'000	2007 £'000
Capital		
Total equity	942	1,789
Less cash and cash equivalents	–	(228)
	942	1,561
Overall financing		
Total equity	942	1,789
Plus borrowings	1,196	591
	2,138	2,380
Capital-to-overall financing ratio	44.1%	65.6%

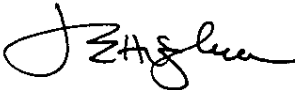
Company balance sheet

At 31 March 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	5	8	14
Investments	6	–	–
		8	14
Current assets			
Debtors	7	1,730	3,241
Cash at bank and in hand		–	14
		1,730	3,255
Creditors amount falling due within one year	8	(234)	(322)
Net current assets		1,496	2,933
Total assets less current liabilities being net assets		1,504	2,947
Capital and reserves			
Share capital	9	1,594	1,594
Share premium account	10	679	679
Merger reserve	10	297	297
Employee share benefit trust reserve	10	(61)	(61)
Profit and loss account	10	(1,005)	438
Shareholders' funds		1,504	2,947

The financial statements were approved by the Board of Directors and authorised for issue on 30 September 2008


E I Andrews, Director


J E Higham, Director

The accompanying notes on pages 36 to 39 are an integral part of these financial statements

Notes to the company financial statements

For the year ended 31 March 2008

1 Principal accounting policies

Basis of preparation

The parent company financial statements are prepared under the historical cost convention in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Tangible fixed assets

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 stated at cost less provision for impairment.

Leased assets

Rentals payable 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, are charged to the profit and loss account on a straight line basis over the lease term.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. 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.

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 profit and loss account 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 profit and loss account over the remaining vesting period.

Foreign currencies

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.

2 Employee remuneration

(a) Staff Costs

Staff costs, including executive directors, during the year were as follows

	2008 £'000	2007 £'000
Wages and salaries	443	525
Social security costs	53	50
Other pension costs	37	46
	533	621

(b) Staff numbers

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

	2008 Number	2007 Number
Management	6	7

(c) Directors

Directors' remuneration has been disclosed within the directors report and note 8 of the Group financial statements

3 Auditors' remuneration

Auditors' remuneration attributable to the company is as follows

	2008 £'000	2007 £'000
Audit fees – statutory audit	6	5

4 Loss for the financial year

The parent Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements and is reporting under UK GAAP. The loss for the financial year was £1,443,000 (2007 Profit of £173,000)

5 Tangible fixed assets

	Leasehold improvements £'000	Computer equipment £'000	Furniture, fitting and office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 April 2007	75	70	52	19	216
Additions	–	–	–	–	–
Disposals	–	–	–	–	–
At 31 March 2008	75	70	52	19	216
Depreciation					
At 1 April 2007	72	66	51	13	202
Provided in the year	–	3	1	2	6
Eliminated on disposals	–	–	–	–	–
At 31 March 2008	72	69	52	15	208
Net book amount					
At 31 March 2008	3	1	–	4	8
At 31 March 2007	3	4	1	6	14

Notes to the company financial statements

For the year ended 31 March 2008

6 Investments

The amounts recognised in the Company's balance sheet relate to the following

	£'000
Cost	
At 1 April 2007 and 31 March 2008	80
Impairment	
At 1 April 2007 and at 31 March 2008	80
Net book value	
At 1 April 2007 and at 31 March 2008	—

	Principal activity	Class of shares held
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

7 Debtors

	2008 £'000	2007 £'000
Amounts due from subsidiary undertakings	1,607	3,132
Other debtors	24	15
Prepayments and accrued income	99	94
	1,730	3,241

During the year the company has made a provision against amounts due from subsidiary undertakings. Following a review of the Group's funding arrangements, it has been agreed the full amount due to the company will be repaid over the next five years in equal annual instalments. Accordingly, of the net balance shown above, £321,000 is repayable within one year and the balance of £1,286,000 is repayable in more than one year.

8 Creditors amounts falling due within one year

	2008 £'000	2007 £'000
Bank overdraft	38	—
Trade creditors	58	80
Other taxes and social security costs	13	22
Accruals and deferred income	85	180
Other creditors	40	40
	234	322

9 Share capital

	2008 £'000	2007 £'000
Authorised		
42,921,300 ordinary shares of 5p each	2,146	2,146
Allotted, called up and fully paid		
31,875,568 ordinary shares of 5p each	1,594	1,594

At 31 March 2008 all options over ordinary shares in the company have lapsed

10 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Employee share schemes reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2006	1,594	679	297	(61)	265	2,774
Profit for the year	—	—	—	—	173	173
At 31 March 2007	1,594	679	297	(61)	438	2,947
Loss for the year	—	—	—	—	(1,443)	(1,443)
At 31 March 2008	1,594	679	297	(61)	(1,005)	1,504

11 Financial commitments

	Land and buildings 2008 £'000	Other 2008 £'000	Land and buildings 2007 £'000	Other 2007 £'000
Annual Commitments under non-cancellable operating leases expiring				
Within one year	—	—	—	—
Between 2 and 5 years	71	30	70	22
	71	30	70	22

Financial calendar

Last date and time for receipt of proxy for the Annual General Meeting	11 00 a m on 21st October 2008
Annual General Meeting	11 00 a m on 23rd October 2008