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SYSTEMS SERVICES GROUP PLC

SPECIALISTS IN INSURANCE & FINANCIAL MARKETS

Placing by Teather & Greenwood
and
Admission to the Alternative Investment Market

This document is important. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities.

A copy of this document, which comprises a prospectus drawn up in accordance with the Public Offers of Securities Regulations 1995 ("the Regulations"), has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the Regulations.

Application will be made for the ordinary share capital of Highams Systems Services Group plc ("the Company") to be admitted to trading on the Alternative Investment Market ("AIM"). It is emphasised that no application is being made for admission of these securities to the Official List of the London Stock Exchange Limited. Dealings in the Ordinary Shares are expected to commence on 16 December 1996.

AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the Official List. The London Stock Exchange has not itself examined this document. The value of shares can fall as well as rise. Shares traded on AIM may be less liquid and more volatile and carry a higher risk than shares quoted on the Official List.

The Placing is not underwritten and is conditional, inter alia, on 275,000 new Ordinary Shares being subscribed for under the Placing and Admission taking place on or before 23 December 1996 (or such later date as the Company and Teather & Greenwood may agree).

HIGHAMS SYSTEMS SERVICES GROUP PLC

(Registered in England and Wales with number 1700310)

Placing

**of 550,000 new Ordinary Shares and 350,000
existing Ordinary Shares at 72p per share**

Admission to Trading on the Alternative Investment Market

Nominated Adviser and Nominated Broker to the Company

Teather & Greenwood

SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING

Authorised			Issued and fully paid	
Number	Amount		Number	Amount
12,000,000	£600,000	Ordinary Shares of 5p each	8,850,000	£442,500

The new Ordinary Shares will rank pari passu in all respects with the Ordinary Shares now in issue and will have the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of this document.

Teather & Greenwood is acting as nominated adviser to the Company and no one else in relation to the admission of the ordinary share capital of the Company to trading on AIM and will not regard any person other than the Company as its customer or be responsible to anyone other than the Company for providing the protections offered to customers of Teather & Greenwood or for providing advice in relation to the admission of the ordinary share capital of the Company to AIM. In accordance with the rules set out in Chapter 16 of the Rules of the London Stock Exchange ("the AIM Rules"), Teather & Greenwood will confirm to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with.

The Directors of the Company, whose names appear on page 5, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

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DEFINITIONS

The following definitions apply throughout this document unless the context otherwise requires:

“Act”	the Companies Act 1985 (as amended)
“Admission”	the admission of the Ordinary Shares (including the Placing Shares) to AIM becoming effective
“AIM”	the Alternative Investment Market of the London Stock Exchange
“Approved Share Option Scheme”	the Inland Revenue approved Executive Employee Share Option Scheme adopted on 17 May 1996, details of which are set out in paragraph 12 of Part III of this document
“Company” or “Highams”	Highams Systems Services Group plc
“Directors” or “Board”	the directors of the Company as set out on page 5 of this document
“existing Ordinary Shares”	the Ordinary Shares in issue at the date of this document
“Group”	the Company and its subsidiaries
“IT”	Information technology
“London Stock Exchange”	London Stock Exchange Limited
“new Ordinary Shares”	the 550,000 Ordinary Shares to be issued pursuant to the Placing
“Ordinary Shares”	ordinary shares of 5p each in the capital of the Company, issued and to be issued
“PC”	personal computer
“Placing”	the placing of 900,000 Ordinary Shares as described in this document
“Placing Agreement”	the agreement dated 4 December 1996 made between Teather & Greenwood, the Company and the Directors and described in paragraph 16 of Part III of this document
“Placing Price”	72p per Ordinary Share
“Placing Shares”	the 550,000 new Ordinary Shares and 350,000 existing Ordinary Shares being placed pursuant to the Placing Agreement
“Regulations”	the Public Offers of Securities Regulations 1995
“Share Option Schemes”	the Approved Share Option Scheme and the Unapproved Share Option Scheme
“Taxes Act”	the Income and Corporation Taxes Act 1988
“Unapproved Share Option Scheme”	the Employee Share Option Scheme adopted on 15 November 1995 details of which are set out in paragraph 11 of Part III of this document
“UK”	United Kingdom of Great Britain and Northern Ireland

PLACING STATISTICS

Placing price per Ordinary Share	72p
Number of existing Ordinary Shares being placed	350,000
Number of new Ordinary Shares being placed	550,000
Number of Ordinary Shares in issue following the Placing	8,850,000
Number of Ordinary Shares under option following the Placing	440,000
Market capitalisation at the Placing Price	£6.37 million
Pro forma earnings per Ordinary Share*	6.8p
Price/earnings ratio at the Placing Price	10.6

*Note

Pro forma earnings per share have been calculated on profits after taxation of £600,000 for the year ended 31 March 1996 and assuming that the Placing had been completed and that the 8,850,000 Ordinary Shares to be in issue upon Admission had been in issue throughout the year ended 31 March 1996.

DIRECTORS AND ADVISERS

Directors	Nigel Nawton Graham Maw John Edward Higham Edward Ian Andrews Denis John Drinan Maurice Anthony Eve	Non-executive Chairman Chief Executive and Deputy Chairman Executive Director Executive Director Finance Director
	all of Hammond House, 33/45 Croydon Road, Caterham, Surrey CR3 6PB	
Company Secretary	Maurice Anthony Eve	
Registered Office	Hammond House 33/45 Croydon Road Caterham Surrey CR3 6PB	
Nominated Adviser and Nominated Broker	Teather & Greenwood 12-20 Camomile Street London EC3A 7NN	
Registered Auditors	Binder Hamlyn 17 Lansdowne Road Croydon CR9 2PL	
Reporting Accountants	Binder Hamlyn 20 Old Bailey London EC4M 7BH	
Solicitors to the Issue	Withers 12 Gough Square London EC4A 3DE	
Solicitors to the Company	Ormerod Wilkinson Marshall Green Dragon House 64-70 High Street Croydon CR0 9XN	
Principal Bankers	Barclays Bank Plc North End Croydon CR9 1RN.	
Registrar	Independent Registrars Group Limited Balfour House 390/398 High Road Ilford Essex IG1 1NG	

KEY INFORMATION

The following information should be read in context with the full text of this document.

THE BUSINESS

Highams is a specialist IT systems services company providing recruitment, consultancy, support and development services. The Company operates principally in the Insurance and Financial Services sectors.

The Company operates through three divisions:

The **Recruitment Services Division** provides skilled contract and permanent IT personnel and currently has over 200 contractors placed at more than 60 client sites. This Division has recently accounted for approximately 85 per cent of the turnover of the Company.

The **Business Solutions Division** provides IT consultancy, project management, business systems design and systems development and support to approximately 20 clients principally in the Insurance sector. The division has recently become an authorised Microsoft® Solution Provider.

The **Financial Systems Division** provides specialist software packages for the factoring of debts. The Division has implemented its factoring software for five clients ranging from niche factoring houses operating in the UK to the factoring subsidiary of a triple "A" rated European bank operating in seven European countries.

KEY STRENGTHS

The Directors believe that the Company has the following key strengths:

- the growth in the IT contract market in the UK has been rapid and is predicted to continue;
- the Company's clients are principally "blue-chip" organisations;
- the Company operates within niche markets of which the Executive Directors have many years of experience and a successful track record;
- factoring of debts is a growing market;
- history of profitability;
- a highly experienced staff supported by facilities with ISO9002 accreditation.

PROSPECTS

The prospects for the Company are as follows:

- The market for the Recruitment Services Division is predicted to grow by 14 per cent in 1997 and by a further 13 per cent in 1998;
- The Directors anticipate that increased marketing and sales activity on the part of the Business Solutions Division should increase that Division's share of the IT development and support market;
- The Financial Systems Division is attracting interest in its factoring software package from financial institutions based outside the UK.

KEY INFORMATION

REASONS FOR THE PLACING

The Directors believe that at this stage in the Company's growth it is appropriate to seek a quotation for the Company's shares on AIM:

- to take advantage of opportunities for expansion both organically and through the acquisition of quality targets;
- to raise the market profile of the Company;
- to provide liquidity for the Company's existing investors;
- to enable employees to benefit from Highams' future growth both as shareholders and through share incentive arrangements.

FINANCIAL RECORD

The following is a summary of the results of the Group for the period from 1 April 1993 to 30 September 1996 as extracted from the Accountants' Report set out in Part II of this document:

	Years ended 31 March			6 months ended
	1994	1995	1996	30 September
	£000	£000	£000	1996
Turnover	6,065	11,174	13,227	7,359
Gross Profit	1,395	2,064	2,194	1,066
Profit before tax	327	598	899	388

PART I – INFORMATION ON THE COMPANY

INTRODUCTION

Highams is a specialist IT systems services company providing recruitment, consultancy, support and development services to clients principally in the Insurance and Financial Services sectors. The Company's activities are organised into three divisions all of which make positive contributions to the Company's profitability.

The **Recruitment Services Division** provides skilled contract and permanent IT personnel; the Division has recently accounted for approximately 85 per cent of the turnover of the Company and currently has over 200 contractors working at more than 60 client sites. Its client base has grown by over 60 per cent over the last three years, this growth coinciding with a trend towards greater outsourcing of technical services by businesses in Financial Markets. The Division has been awarded ISO9002 quality certification.

The **Business Solutions Division** provides IT consultancy, project management, business systems design and systems development and support to approximately 20 clients principally in the Insurance sector. The Division has recently become an authorised Microsoft® Solution Provider and is now actively marketing its services to a substantial range of users of Microsoft® technology operating in the Insurance sector.

The **Financial Systems Division** provides specialist software packages and related support services for the factoring of debts by clients. The Division's factoring system is operational at five clients which range from niche factoring houses operating in the UK to the factoring subsidiary of a triple "A" rated European bank operating in seven European countries.

In the normal course of their activities, the Business Solutions and Recruitment Services Divisions introduce potential sales leads to each other. Additionally, the Recruitment Services Division is a rapid and effective source of skilled resources to assist the other two Divisions of the Company in development projects.

The Company has a close working relationship with its major clients and this provides the opportunity to assess market trends and to identify future business opportunities. The wide range of skills and resources available to the Company means that such opportunities can be positively responded to.

HISTORY

Founded in February 1983 under the name of JE Higham & Associates Limited, the Company commenced trading as an independent IT consultancy to the Insurance sector. The Company has grown both organically and by acquisition. The Directors recognised the increasing demand for IT contract personnel coupled with a trend towards outsourcing and in 1985 expanded into IT contract recruitment services.

In 1993, the Company purchased the rights to computer software which is now marketed as the Highams Factoring System. In March 1996, the Company was placed in thirtieth position in the top 100 Fastest Growing Private UK Companies measured by sales growth in the previous five years (source: Independent on Sunday/Price Waterhouse). In 1996, the Company entered into an agreement whereby it was authorised as an approved Microsoft® Solution Provider.

BUSINESS ACTIVITIES

IT Recruitment Services

The Recruitment Services Division is a specialist provider of independent IT contractors to the Financial Services sector, particularly to Insurance companies.

The growth in the IT contract market in the UK has been rapid in recent years as businesses have moved towards the use of contractors rather than permanent staff. This trend is predicted to continue. (Source: System House)

There are more than 200 recruitment companies servicing the IT sector, many of which undertake a wide range of recruitment activities. These include Delphi plc, Parity plc, CRT plc and MSB International plc. By specialising in the Financial Services sector, and insurance companies in particular, the number of comparable competitors to the Company is reduced significantly.

The Directors believe that the Company's reputation and its policy of adopting a focused approach to clients within its niche market provides the Division with the opportunity to increase its share of a market which is predicted to grow by 14 per cent in 1997 and a further 13 per cent in 1998. (Source: System House)

In the financial year to 31 March 1996, ten of the Recruitment Services Division's clients accounted for approximately 55 per cent of the Company's turnover. These clients include Abbey National, Barclays, National Provident Institution and Zurich Insurance, each of which accounted for more than 5 per cent of turnover of the Division in that year. Other clients include Equitas, IBM, Sun Life of Canada and UNISYS. Many of the Company's principal clients have been clients for several years and the Directors are confident that these relationships will continue to be beneficial in attracting new business.

The Recruitment Services Division places independent IT contractors with its clients on assignment by matching client requirements with suitably experienced contractors from approximately 10,000 individuals whose details the Company maintains on its database. Contract IT personnel are normally placed with clients for an initial period of three to six months with many contracts subsequently being extended. The average contract duration is approximately 13 months.

Contractors are paid by the Company on a weekly or monthly basis on receipt of a time sheet signed by both the contractor and the client. Clients are invoiced on a monthly basis. The Company's cash requirement is satisfied from the Company's generated cash flow backed up, when necessary, by an overdraft facility with its bank. The Division's clients are almost exclusively "blue-chip" companies and therefore, historically, bad debts have been negligible.

The Division also provides a recruitment service for permanent IT staff, which accounts for a relatively small percentage of the Division's turnover.

Business Solutions

The Division offers services in Consulting (including Business Process Improvement and Strategic IT Consultancy), Client/Server Systems Design and Implementation, Applications Care and Maintenance and Education and Awareness.

Historically, the Division provided a general IT consultancy service in the Insurance industry. Competition for these services is intense and early in 1996 the Directors changed the strategic direction of the Division. Having recognised the increasing dominance of Microsoft® in office technologies, the Division became qualified as an authorised Microsoft® Solution Provider. This required investment in new personnel, training, computer hardware and associated marketing activities.

The Division's services are delivered by Highams' team of experienced consultants who have in-depth knowledge of the Insurance business gained from applying technology to meet the requirements of a wide variety of insurance clients. Services are provided both at clients' premises and from the Company's support centre in Caterham where a Help Desk is maintained. When necessary, the Division is able to supplement the skills of its own employees with those of specialist freelance consultants drawn, where possible, from the Recruitment Services Division.

Competition in the sector in which the Division now operates remains strong. The Division's primary competitors are other technology solution providers and the market is very diverse. The Directors believe that no single competitor regularly features when the Division tenders for contracts. While it is premature to predict the effect of the redirection of the Division's activities, the Directors are optimistic that the change in direction outlined above should have a beneficial impact on the Division's performance in the medium term.

Financial Systems

The Financial Systems Division licenses the Highams Factoring System to factoring companies. It also develops, implements and provides long term support of the Highams Factoring System.

In the UK there are approximately 45 factoring companies, with four large factors (subsidiaries of major banks) accounting for approximately 57 per cent of the market in 1995. The market has grown from approximately £5 billion of total factored volume in 1985 to approximately £35 billion in 1995. The Directors believe that this growth is likely to continue as the economy improves, encouraging new entrants to the market, keener competition and thus greater potential demand for the Division's services.

France, Italy and the UK are within the top five countries worldwide measured by factored volume. Significant quantities of factored business also exist in Germany and the Netherlands. There has been a slow but steady increase in international (cross-border) factoring within Europe and the Directors are targeting this market. Significant enhancements have been effected to the Highams Factoring System to cater for the requirements of domestic and cross-border factoring companies in Europe.

Because the UK has one of the bigger, more mature factoring markets, its applications computer systems are well developed. Furthermore, because factoring in the USA is appreciably different to factoring in Europe, the Directors are unaware of any systems of US origin operating in the European market. The Directors are aware of only two direct competitors to the Division operating in the United Kingdom.

The Division's clients in the United Kingdom are: Aston Rothbury Factors, Metropolitan Factors, Kellock and Singer & Friedlander Factors Limited. It also supplies De Lage Landen International BV, the subsidiary of a triple "A" rated Dutch bank, which operates the Highams Factoring System in the Netherlands and six other European countries.

All clients of the Division purchase a maintenance and support service and most clients have a requirement for customised system enhancements. Enhancement fees have traditionally accounted for the majority of the Division's turnover and the Division's future turnover will continue to be materially dependent on the Division being required to carry out system enhancement for existing and future clients. Most support work is conducted from the Company's office at Caterham with occasional visits to clients' sites. The Division's support team has on-line access to all client sites to perform its services.

In the period to 30 September 1996, one client accounted for nearly three quarters of the Division's turnover. While the Directors anticipate that the turnover generated from this client may reduce in the short to medium term, the Directors are confident that the Division's reputation in its niche market and the anticipated continuing increase in factoring activity will result in it both winning new clients and carrying out further enhancement for existing clients to meet future developments within the factoring market.

FINANCIAL RECORD

The following is a summary of the Group's results for the three years ended 31 March 1996 and for the six months ended 30 September 1996, as extracted from the Accountant's Report in Part II of this document:

	Years ended 31 March			6 months ended 30 September
	1994 £000	1995 £000	1996 £000	1996 £000
Turnover	6,065	11,174	13,227	7,359
Gross Profit	1,395	2,064	2,194	1,066
Profit before tax	327	598	899	388

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Directors are:

Nigel Nawton Graham Maw MA LLM (Cantab) (aged 63), Non-Executive Chairman

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

John Edward Higham ACII (aged 51), Chief Executive and Deputy Chairman

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

Edward Ian Andrews (aged 44), Executive Director

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

Denis John Drinan (aged 51), Executive Director

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

Maurice Anthony Eve FCA (aged 42), Finance Director and Company Secretary

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

Senior Management

Bryan John Martin (aged 40), General Manager, Financial Systems

Bryan Martin is responsible for product development of the Highams Factoring System and its successful implementation and support. He joined Highams in 1993 from Security Pacific Eurofinance, where he was the European IT Manager.

Denise Lesley Morris (aged 33), Sales Manager, Recruitment Services

Denise Morris is responsible for managing the Recruitment Services Division's sales and support services to its major clients in the insurance market. Prior to joining Highams in 1992, she was employed by Trident Computer Services and has eight years experience in recruitment services.

Christopher Frederick Northam (aged 38), General Manager, Recruitment Services

Chris Northam is the General Manager of the Recruitment Services Division and also manages major client accounts. He joined Highams in 1988 and has managed the Division's growth into Highams' largest operating division. Prior to joining Highams he was involved in a sales management capacity at Thomson Local Directories.

Philip Sydney Shuff (aged 48), General Manager, Business Solutions

Phil Shuff has 27 years experience in IT systems in the insurance market. He joined Highams in 1990 after 2 years as Executive Manager with Computations UK Limited and 5 years at BIS Applied Systems Limited where he was responsible for managing client services and implementing software products. Within Highams he is responsible for sales and delivery of a range of IT services and manages Highams' relationship with Microsoft® as a Solution Provider.

Clive Williams (aged 33), General Manager, Business Development

Clive Williams joined Highams in January 1996; his responsibilities include the development and launch of new products and services, marketing, joint ventures and sales support. He has 14 years experience in the IT industry with a background ranging from large IBM mainframes to managing companies which deliver leading edge distributed systems. Prior to joining Highams he held a number of management positions within Enterprise Computer Holdings plc.

At the date of this document, excluding the Directors, the Company has 40 full time employees of which 17 are employed in the Recruitment Services Division, 12 are employed by the Business Solutions Division, 4 are employed by the Financial Systems Division and 7 provide administrative support.

In addition, the Company currently uses 9 independent Contractors on its systems projects.

CORPORATE GOVERNANCE

The policy of the Board is to comply with the standards expected under the Code of Best Practice, issued by the Cadbury Committee on the Financial Aspects of Corporate Governance, so far as is practicable for a small public company. The Board has accordingly adopted a number of policies and procedures which reflect the Code of Best Practice. In particular, the Board has established an Audit Committee and a Remuneration Committee, both chaired by the Company's non-executive Chairman.

EMPLOYEE INCENTIVES

A sales commission scheme operates for all sales-related staff based on gross margin achieved. Within the Recruitment Services Division a commission bonus scheme comes into effect when performance thresholds are achieved.

The Directors intend to formalise a discretionary bonus scheme through which the Remuneration Committee will be able to reward any member of staff, including Directors, whose performance has in the view of the Remuneration Committee, been exceptional.

The Company operates a Profit Related Pay scheme for all of its staff.

The Company has two Share Option Schemes, details of which are set out in paragraphs 11 and 12 of Part III. Options over 440,000 Ordinary Shares have been granted under the Unapproved Share Option Scheme to certain key employees. The Directors anticipate that any future grant of options over Ordinary Shares will be under the Approved Share Option Scheme. The recipients of future options, the number of options to be granted and the targeted performance criteria which relate to them will be determined by the Remuneration Committee.

THE PLACING

The Placing will raise £396,000 of new money for the Company to cover the costs associated with Admission and provide the Company with additional working capital. In addition, John Higham and Denis Drinan are respectively selling 210,000 Ordinary Shares and 140,000 Ordinary Shares in the Placing. Following the Placing, the interests of the Directors and their related parties will together represent 89.9 per cent of the enlarged issued share capital of the Company. Further details of Directors' shareholdings are set out in paragraph 6 of Part III.

The Placing is not underwritten and is conditional on the Ordinary Shares being admitted to AIM no later than 23 December 1996.

Further details of the Placing are set out in paragraph 16 of Part III of this document.

Reasons for the Placing

The Directors believe that at this stage in the Company's growth it is appropriate to seek a quotation for the Company's shares on AIM:

- to take advantage of opportunities for expansion both organically and through the acquisition of quality targets;
- to raise the market profile of the Company;
- to provide liquidity for the Company's existing investors; and

- to enable employees to benefit from Highams' future growth both as shareholders and through share incentive arrangements.

DIVIDEND POLICY

The Board's policy is that the Company should pay a final dividend in September of each year. On this basis the next dividend would be payable in September 1997 in respect of the financial year ending 31 March 1997. The level of dividend to be recommended by the Board will depend on the profits achieved, the actual and prospective requirements of the Company, and the maintenance of a prudent level of dividend cover.

CURRENT TRADING AND PROSPECTS

The Company's overall performance in the current financial year to date has exceeded budget. In the current year the Company has increased its investment in personnel and resources in readiness for anticipated future growth in all Divisions, the full benefits of which should be realised in the medium term. The costs of recruitment, additional salaries and training together with additional computer hardware and software costs have the effect of reducing the gross margin and profits in the short term.

In the financial year to 31 March 1996, one client accounted for approximately 15.4 per cent of the Company's turnover; the corresponding contribution to profits was considerably lower. The Directors anticipate that this client's requirement for IT contractors will diminish over the next 18 months but are confident that alternative (and potentially more profitable) sources of business will be secured during that period.

The Directors believe that Highams is strategically placed to continue to achieve organic growth through its existing activities. Forecasts for the markets in which the Company operates continue to predict opportunities for growth and the Directors look forward to the future with confidence.

FUTURE STRATEGY

The Directors believe that growth will be mainly achieved organically. Suitable opportunities for expansion by acquisition will also be carefully examined as will the creation of new services and products which are within, or ancillary to, the Company's areas of specialisation.

Recruitment Services Division

The market for contract IT consultants is predicted to grow by 14 per cent in 1997 and by a further 13 per cent in 1998. The Directors intend that the Recruitment Services Division should out-perform these growth predictions by increasing the size of its sales force, marketing to new clients in the Financial Services sector and by increasing the number of preferred supplier arrangements.

Business Solutions Division

The Directors plan to increase marketing and sales activity with the intent of increasing the Division's share of the IT development and support services market as a Microsoft® Solution Provider.

Further initiatives for suitable IT services and application software will be carefully researched and, where sound business plans can be developed, these initiatives will be implemented.

Financial Systems Division

The Directors believe that the principal opportunity for future growth for this Division will come through the expansion of global markets and it is currently extending its marketing in Europe and into Australasia.

BINDER HAMLYN

Andersen Worldwide

20 Old Bailey
London EC4M 7BH

The Directors
Highams Systems Services Group plc
Hammond House
33/45 Croydon Road
Caterham
Surrey CR3 6PB

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

4 December 1996

Dear Sirs

We have examined the audited accounts of Highams Systems Services Group plc ("Highams") and the accounts of its subsidiaries Highams Computer Services Limited, Feature Computers Limited and Fenchurch Street Computers Limited (together 'the Group') for the three years and six months ended 30 September 1996. No audited accounts have been prepared in respect of any period subsequent to 30 September 1996. Our work has been conducted in accordance with the Auditing Guideline "Prospectuses and the reporting accountant".

We have acted as auditors of Highams for each of the three financial years ended 31 March 1996 and the six months ended 30 September 1996 and each of our reports on the accounts for those periods was unqualified.

The financial information set out below is based on the accounts of the Group after making such adjustments as we consider necessary.

In our opinion, the financial information gives, for the purposes of the Prospectus dated 4 December 1996, a true and fair view of the state of affairs of the Group as at 31 March 1994, 1995 and 1996 and 30 September 1996 and the consolidated profits and cash flows for each of the periods then ended.

We consent to the inclusion of this report in the Prospectus and accept responsibility for this report for the purposes of paragraph 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Accounting policies

The significant accounting policies consistently adopted in preparing the financial information set out below are as follows:

Basis of preparation

The financial information is prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The financial information consolidates the financial statements of Highams Systems Services Group plc and all its subsidiary undertakings.

Highams' subsidiaries are Highams Computer Services Limited, Feature Computers Limited and Fenchurch Street Computers Limited, all of which are registered in England and Wales. All of the subsidiaries were wholly owned and have not traded throughout the three years and six months ended 30 September 1996.

Turnover

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, at annual rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Computer equipment – 50 per cent on cost

Furniture, fittings and office equipment – 25 per cent on cost

Motor vehicles – 25 per cent on written down value

Leasing commitments

Assets obtained under leases which result in the transfer to the Group of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated in accordance with the above policy. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The finance element of the rental payments is charged to the profit and loss account over the period of the lease so as to produce a constant periodic rate of charge on the outstanding balance of the net obligation in each period.

Rentals payable under other leases (operating leases) are charged to the profit and loss account on a straight line basis over the lease term.

Pension costs

The Group operates a funded defined contribution pension scheme. The pension cost charge represents contributions payable by Highams to the pension scheme in the period.

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

PART II – ACCOUNTANTS' REPORT

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended 31 March			Six months ended
		1994	1995	1996	30 September
		£000	£000	£000	1996
					£000
Turnover	1	6,065	11,174	13,227	7,359
Cost of sales		(4,670)	(9,110)	(11,033)	(6,293)
Gross profit		1,395	2,064	2,194	1,066
Administrative expenses		(1,067)	(1,455)	(1,299)	(684)
Operating profit	2	328	609	895	382
Interest receivable and similar income	3a	1	–	9	6
Interest payable	3b	(2)	(11)	(5)	–
Profit on ordinary activities before taxation		327	598	899	388
Tax on profit on ordinary activities	6	(102)	(216)	(299)	(116)
Profit for the financial period		225	382	600	272
Dividends	7	(30)	(24)	(42)	–
Retained profit for the period	14	195	358	558	272
Earnings per share – pence	8	2.7	4.6	7.2	3.3

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Except for the result for the relevant financial periods, as shown above, the Group had no recognised gains or losses.

PART II – ACCOUNTANTS' REPORT

CONSOLIDATED BALANCE SHEETS

		At 31 March		At 30 September	
	Notes	1994 £000	1995 £000	1996 £000	1996 £000
Fixed assets	9	163	137	107	162
Current assets					
Debtors	10	1,396	2,493	2,404	2,904
Cash at bank and in hand		–	–	651	136
		1,396	2,493	3,055	3,040
Creditors: amounts falling due within one year	11	(819)	(1,532)	(1,490)	(1,258)
Net current assets		577	961	1,565	1,782
Total assets less current liabilities		740	1,098	1,672	1,944
Provisions for liabilities and charges	12	–	–	(16)	(16)
Net assets		740	1,098	1,656	1,928
Capital and reserves					
Called up share capital	13	42	42	42	42
Reserves	14	698	1,056	1,614	1,886
Shareholders' funds (all equity)	15	740	1,098	1,656	1,928

CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Year ended 31 March			Six months ended
		1994	1995	1996	30 September
		£000	£000	£000	1996 £000
Net cash inflow/(outflow) from operating activities	16	133	208	1,015	(424)
Returns on investments and servicing of finance					
Interest received		1	–	9	6
Interest paid		(2)	(11)	(5)	–
Dividends paid		–	(54)	(42)	–
Net cash (outflow)/inflow from returns on investments and servicing of finance		(1)	(65)	(38)	6
Taxation					
UK corporation tax (paid)/received		(34)	(114)	(208)	5
Investing activities					
Purchase of tangible fixed assets		(128)	(101)	(48)	(89)
Proceeds on disposal of tangible fixed assets		15	20	25	11
Net cash outflow from investing activities		(113)	(81)	(23)	(78)
Net cash (outflow)/inflow before financing		(15)	(52)	746	(491)
(Decrease)/increase in cash and cash equivalents	17	(15)	(52)	746	(491)

NOTES TO THE FINANCIAL INFORMATION

1 Turnover

An analysis of turnover by business and geographical segments is not given as, in the opinion of the directors, disclosure of this information would be seriously prejudicial to the interests of the Group.

2 Operating profit is stated after charging:

	Year ended 31 March			Six months ended
				30 September
	1994	1995	1996	1996
	£000	£000	£000	£000
Auditors' remuneration – audit fees	10	12	13	7
– other	4	4	7	4
Depreciation	102	96	45	23
Loss/(profit) on sale of fixed assets	7	11	8	(1)
Operating lease rentals – buildings	43	54	40	20
– vehicles	–	–	26	13

3 Interest

(a) *Interest receivable and similar income*

	Year ended 31 March			Six months ended
				30 September
	1994	1995	1996	1996
	£000	£000	£000	£000
Bank deposit interest	1	–	9	6

(b) *Interest payable*

	Year ended 31 March			Six months ended
				30 September
	1994	1995	1996	1996
	£000	£000	£000	£000
Bank overdraft interest	2	11	5	–

PART II – ACCOUNTANTS' REPORT

4 Information regarding employees (including directors)

(a) Staff costs

Total staff costs were as follows:

	Year ended 31 March			Six months ended
	1994	1995	1996	30 September
	£000	£000	£000	1996 £000
Wages and salaries	1,210	1,535	1,449	758
Social security costs	130	159	126	71
Other pension costs	131	143	140	68
	1,471	1,837	1,715	897

(b) Staff numbers

The average number of persons employed by the Group during the period was as follows:

	Year ended 31 March			Six months ended
	1994	1995	1996	30 September
	£000	£000	£000	1996 £000
Management	6	6	6	6
Consultants, support and administration	32	34	31	35
Sales and marketing	4	3	3	3
	42	43	40	44

5 Directors

(a) Directors' emoluments

	Year ended 31 March			Six months ended
	1994	1995	1996	30 September
	£000	£000	£000	1996 £000
Remuneration as executives (including benefits in kind and pension contributions)	259	423	390	155
The emoluments of directors (excluding pension contributions) include amounts in respect of:				
– Chairman	57	120	93	37
– Highest paid director (1995: Chairman)	63	120	112	43

PART II – ACCOUNTANTS' REPORT

5 Directors (continued)

(b) Bandings

Directors' emoluments, excluding pension contributions, fell within the following bands:

	Year ended 31 March			Six months ended
	1994	1995	1996	30 September 1996
	Number	Number	Number	Number
£10,001 – £15,000	1	–	–	–
£35,001 – £40,000	–	–	–	1
£40,001 – £45,000	–	–	–	2
£50,001 – £55,000	1	–	–	–
£55,001 – £60,000	1	–	–	–
£60,001 – £65,000	1	–	–	–
£90,001 – £95,000	–	–	1	–
£105,001 – £110,000	–	–	1	–
£110,001 – £115,000	–	1	1	–
£115,001 – £120,000	–	2	–	–
	4	3	3	3

6 Taxation

	Year ended 31 March			Six months ended
	1994	1995	1996	30 September 1996
	£000	£000	£000	£000
UK corporation tax on the adjusted profit for the period	102	212	283	134
Adjustments relating to prior years	–	4	–	(18)
Transfer to deferred tax	–	–	16	–
	102	216	299	116
Effective rate of tax	28%	31%	32%	32%

PART II – ACCOUNTANTS' REPORT

7 Dividends

	Year ended 31 March			Six months ended
	1994	1995	1996	30 September 1996
	£000	£000	£000	£000
Interim dividend	–	24	42	–
Final dividend	49	–	–	–
Dividends waived	(19)	–	–	–
	30	24	42	–

Mr JE Higham waived his entitlement to a dividend for the year ended 31 March 1994 on 15,900 shares.

8 Earnings per share

The earnings per share has been calculated on the basis of the profit after taxation divided by 8,300,000 being the number of shares in issue immediately prior to the Placing.

9 Tangible fixed assets

	Computer equipment	Furniture, fittings and office equipment	Motor vehicles	Total
	£000	£000	£000	£000
Cost				
As at 1 April 1993	99	32	208	339
Additions	88	1	39	128
Disposals	(73)	(7)	(48)	(128)
As at 31 March 1994	114	26	199	339
Additions	6	13	82	101
Disposals	–	–	(67)	(67)
As at 31 March 1995	120	39	214	373
Additions	4	–	44	48
Disposals	–	–	(74)	(74)
As at 31 March 1996	124	39	184	347
Additions	16	–	73	89
Disposals	–	–	(36)	(36)
As at 30 September 1996	140	39	221	400

PART II – ACCOUNTANTS' REPORT

9 Tangible fixed assets (continued)

	Computer equipment £000	Furniture, fittings and office equipment £000	Motor vehicles £000	Total £000
Depreciation				
1 April 1993	79	17	83	179
Charge for the year	60	6	36	102
Disposals	(70)	(8)	(27)	(105)
As at 31 March 1994	69	15	92	176
Charge for the year	49	7	40	96
Disposals	–	–	(36)	(36)
As at 31 March 1995	118	22	96	236
Charge for the year	5	8	32	45
Disposals	–	–	(41)	(41)
As at 31 March 1996	123	30	87	240
Charge for 6 months	2	3	18	23
Disposals	–	–	(25)	(25)
As at 30 September 1996	125	33	80	238
Net book value				
As at 31 March 1994	45	11	107	163
As at 31 March 1995	2	17	118	137
As at 31 March 1996	1	9	97	107
As at 30 September 1996	15	6	141	162

10 Debtors

	At 31 March			At 30 September
	1994 £000	1995 £000	1996 £000	1996 £000
Trade debtors	1,352	2,396	2,347	2,656
Prepayments and accrued income	21	61	24	215
Other debtors	16	36	33	33
ACT recoverable	7	–	–	–
	1,396	2,493	2,404	2,904

PART II – ACCOUNTANTS' REPORT

11 Creditors: amounts falling due within one year

	At 31 March			At
				30 September
	1994	1995	1996	1996
	£000	£000	£000	£000
Bank overdrafts	67	119	24	–
Trade creditors	320	600	687	530
Corporation tax	109	204	279	400
Other taxes and social security costs	196	276	213	148
Accruals and deferred income	96	332	286	179
Other creditors	1	1	1	1
Proposed dividend	30	–	–	–
	819	1,532	1,490	1,258

Bank overdrafts are secured by a fixed and floating charge over all the assets of Highams Systems Services Group plc.

12 Deferred tax

Deferred tax, which represents the full potential liability, is in respect of timing differences in the recognition of payments into the Employee Share Benefit Trust as expenses for taxation and accounting purposes.

13 Share capital

(a) Summary

	Authorised				Allotted, called up and fully paid			
	31 March		30 September		31 March		30 September	
	1994	1995	1996	1996	1994	1995	1996	1996
	Number	Number	Number	Number	£000	£000	£000	£000
Ordinary £1 shares	50,000	50,000	50,000	50,000	42	42	42	42

(b) Contingent rights to the allotment of shares

During the year ended 31 March 1996, options were granted under the Highams Systems Services Group plc Employee Share Option Scheme, details of which are provided in note 19(a).

PART II – ACCOUNTANTS' REPORT

14 Movement in reserves

	Capital redemption reserve	Profit and loss account	Total reserves
	£000	£000	£000
1 April 1993	8	495	503
Retained profit for the year	–	195	195
31 March 1994	8	690	698
Retained profit for the year	–	358	358
31 March 1995	8	1,048	1,056
Retained profit for the year	–	558	558
31 March 1996	8	1,606	1,614
Retained profit for the period	–	272	272
30 September 1996	8	1,878	1,886

15 Reconciliation of movements in shareholders' funds

	At 31 March			At 30 September
	1994	1995	1996	1996
	£000	£000	£000	£000
Profit for the financial period	225	382	600	272
Dividends	(30)	(24)	(42)	–
Net addition to shareholders' funds	195	358	558	272
Opening shareholders' funds	545	740	1,098	1,656
Closing shareholders' funds	740	1,098	1,656	1,928

16 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	Year ended 31 March			Six months ended 30 September
	1994	1995	1996	1996
	£000	£000	£000	£000
Operating profit	328	609	895	382
Depreciation	102	96	45	23
(Increase)/decrease in debtors	(632)	(1,104)	89	(499)
Increase/(decrease) in creditors	328	596	(22)	(329)
Loss/(profit) on disposal of fixed assets	7	11	8	(1)
	133	208	1,015	(424)

17 Analysis of balances of cash and cash equivalents

	Cash at bank and in hand	Bank overdraft	Total cash and cash equivalents
	£000	£000	£000
Balance at 31 March 1993	33	(85)	(52)
Change in year	(33)	18	(15)
Balance at 31 March 1994	–	(67)	(67)
Change in year	–	(52)	(52)
Balance at 31 March 1995	–	(119)	(119)
Change in year	651	95	746
Balance at 31 March 1996	651	(24)	627
Change in six months	(515)	24	(491)
Balance at 30 September 1996	136	–	136

Cash at bank and in hand at 31 March 1996 and 30 September 1996 includes £50,000 and £50,533 respectively (31 March 1994, 1995: £nil) in respect of monies held in an Employee Share Benefit Trust (see note 19(b))

18 Financial commitments*Operating leases*

Highams had annual commitments under non-cancellable operating leases as follows:

	1994		At 31 March 1995		1996		At 30 September 1996	
	Land and buildings	Other	Land and buildings	Other	Land and buildings	Other	Land and buildings	Other
	£000	£000	£000	£000	£000	£000	£000	£000
Leases expiring:								
Within one year	–	–	–	–	9	–	–	11
Between one and five years	18	1	18	1	–	27	–	–
After more than five years	38	–	38	–	33	–	30	1
	56	1	56	1	42	27	30	11

19 Employee share schemes

(a) *Employee Share Option Scheme*

In November 1995, the Group established the Highams Systems Services Group Limited Employee Share Option Scheme. Options were granted for 400 £1 ordinary shares in Highams at a subscription price of £40 per share, exercisable between December 1998 and November 2002. In November 1996, Highams granted further options for 1,800 £1 ordinary shares in Highams at a subscription price of £40 per share, exercisable between November 1999 and October 2003. The Board of Directors may from time to time, at its absolute discretion, grant options to eligible participants. No options may be granted after the seventh anniversary of the scheme's approval.

(b) *Employee Share Benefit Trust*

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

In accordance with Urgent Issues Force Abstract 13 (UITF 13), for such trusts, shares and liabilities, where they have been guaranteed by the sponsoring company, are recognised in the sponsoring company's balance sheet. Similarly, in accordance with UITF 13, any financing and administrative costs would be charged to the profit and loss account as they accrue, and not as funding payments are made by the sponsoring company. Any permanent diminution in the value of shares classified as fixed assets is recognised immediately in the sponsoring company's financial statements. Where such trusts conditionally gift shares or put them under option to employees at below the book value, the difference between book value and residual value would be charged as an operating cost over the period of service of the employees in respect of which the gifts or options are granted.

During the six months ended 30 September 1996 Highams made a contribution of £Nil (year ended 31 March 1996: £50,000) to the Trust as funding to acquire shares in Highams in due course. As at 30 September 1996 date the Trust had not acquired any shares. Its only asset at 30 September 1996 was cash at bank of £50,533, which is included in Highams balance sheet as part of cash at bank and in hand. The Trust had no liabilities.

20 Post balance sheet events

On 28 November 1996:

- the authorised share capital of Highams was increased to £600,000 by the creation of 550,000 new ordinary shares of £1 each;
- each ordinary share of £1 in the issued and unissued share capital of Highams was then sub-divided into 20 ordinary shares of 5p each; and
- £373,500 of Highams revenue reserves was appropriated to holders of ordinary shares and applied to pay up in full at par 7,470,000 ordinary shares and such shares were allotted and distributed credited as fully paid to and among the holders of the ordinary shares in the proportion of nine ordinary shares for each ordinary share then held.

On 29 November 1996 Highams was re-registered as a public limited company pursuant to Section 43 of the Companies Act 1985.

Yours faithfully

Binder Hamlyn
Chartered Accountants

GENERAL INFORMATION

1. Incorporation and registered office

The Company was incorporated in England and Wales on 17 February 1983 under the Companies Acts 1948 to 1981 as a private limited company under the name J E Higham and Associates Limited. The Company changed its name to Highams Systems Services Group Limited on 28 October 1988. On 29 November 1996 the Company was re-registered as a public limited company pursuant to Section 43 of the Act.

The registered office of the Company is Hammond House, 34/45 Croydon Road, Caterham, Surrey, CR3 6PB. The registered number of the Company is 1700310. The liability of the members is limited.

2. Share capital

- 2.1 On 11 March 1992 the authorised share capital of the Company was increased from £100 to £50,000 by the creation of 49,900 ordinary shares of £1 each and the directors were authorised under Section 80 of the Act to allot and issue such shares as they saw fit for a period of five years as if Section 89(1) of the Act did not apply. It was also resolved that the distributable reserves of the Company be capitalised to £49,900 and the directors be authorised to pay up in full and allot such shares credited as fully paid to the existing shareholders at the rate of 499 new shares for every existing share held by members. 24,451 ordinary shares of £1 each were allotted to J E Higham, 8,483 to E I Andrews, 8,483 to D J Drinan and 8,483 to W D Rowley.
- 2.2 On 6 May 1992 the Company bought back 8,500 ordinary shares of £1 each from W D Rowley for a consideration of £15,500.
- 2.3 On 19 November 1992 J E Higham transferred 100 ordinary shares of £1 each to C F Northam.
- 2.4 By written resolutions dated 28 November 1996:
 - (a) by an ordinary resolution, the authorised share capital was increased to £600,000 by the creation of 550,000 new ordinary shares of £1 each;
 - (b) by an ordinary resolution, each ordinary share of £1 in the issued and unissued share capital of the Company was then sub-divided into 20 Ordinary Shares of 5p each;
 - (c) by an ordinary resolution, the Directors were generally and unconditionally authorised pursuant to Section 80 of the Act to allot relevant securities (within the meaning of that Section) of the Company up to an aggregate nominal amount of £600,000, such authority to expire (unless previously renewed, varied or revoked by the Company in general meeting) five years from the date of the resolution except as regards an allotment made pursuant to an offer or agreement made by the Company before such date, such authority to be in substitution for all existing authorities granted to the Directors in respect of the allotment of relevant securities;
 - (d) by a special resolution, the Directors were authorised pursuant to Section 95(1) of the Act and to the authority mentioned in sub-paragraph (c) of this paragraph to allot equity securities (as defined by Section 94(2) of the Act) as if Section 89(1) of the Act did not apply to any such allotment, such authority to expire on the date of the first Annual General Meeting of the Company following Admission except as regards an allotment made pursuant to an offer or agreement entered into by the Company before such date, provided that such power be limited to:

PART III – GENERAL INFORMATION

- (1) allotments of equity securities up to an aggregate nominal amount of £27,500 pursuant to the Placing;
 - (2) allotments in connection with a rights issue in favour of holders of Ordinary Shares (notwithstanding that in certain circumstances the equity securities to be allotted might not be offered to all of such holders or in proportion to the number of shares held by each of them); and
 - (3) allotments of equity securities up to an aggregate nominal value of £22,316 (being approximately 5 per cent of the ordinary share capital in issue after the Placing) otherwise than in pursuance of sub-paragraph (1) and (2) above; and
- (e) by an Ordinary Resolution, £373,500 of the Company's revenue reserves were appropriated to the holders of Ordinary Shares and applied to pay up in full at par 7,470,000 Ordinary Shares and such shares were allotted and distributed credited as fully paid to and among the holders of the Ordinary Shares in the proportion of nine Ordinary Shares for each Ordinary Share then held.

- 2.5 The following table shows the authorised and issued share capital of the Company at the date of this document:

Ordinary Shares of 5p each	Number	£
Authorised	12,000,000	600,000
Issued and fully paid	8,300,000	415,000

The following table shows the authorised and issued share capital of the Company following the Placing, assuming the Placing is fully subscribed:

Ordinary Shares of 5p each	Number	£
Authorised	12,000,000	600,000
Issued and fully paid	8,850,000	442,500

- 2.6 As at the date of this document, there are no listed or unlisted securities issued by the Company not representing share capital.
- 2.7 As at the date of this document, there are no listed or unlisted convertible securities issued by the Company.
- 2.8 Otherwise than pursuant to the Placing, none of the Ordinary Shares has been sold or is available in whole or in part to the public in conjunction with the application for 8,850,000 Ordinary Shares to be admitted to AIM.
- 2.9 The new Ordinary Shares, issued pursuant to the Placing, are being issued at a price of 72p per Ordinary Share representing a premium of 67p over their nominal value of 5p each.

3. Group Structure

The Company is the holding company of the following companies all of which are 100 per cent subsidiaries:

Company name	Date of incorporation
Feature Computers Limited*	29 September 1988
Fenchurch Street Computers Limited*	29 September 1988
Highams Computer Services Limited*	30 January 1989

(*dormant)

The registered address of each of the above companies is Hammond House, 33/45 Croydon Road, Caterham, Surrey CR3 6PB. Neither Feature Computers Limited nor Fenchurch Street Computers Limited have traded since the date of their incorporation. On 1 April 1993, the trade assets and liabilities of Highams Computer Services Limited were transferred to the Company and that company has not traded since that date.

4. Memorandum of Association

The Memorandum of Association of the Company was adopted on 28 November 1996. The object of the Company is to carry on business as a general commercial company. It has power, as provided by the Act, to carry on any trade or business whatsoever together with all things as are incidental or conducive to the carrying on of any trade or business by it. The Memorandum of Association includes express powers for the Company to provide a technical and advisory service for users of computers, to devise and supply programmes and other software for such users, to act as employment agents to deal in software and to act as systems analysis consultants.

5. Articles of Association

The Articles of Association of the Company, which were adopted on 28 November 1996 ("the Articles"), contain, inter alia, provisions to the following effect:

5.1 Allotments and pre-emption

The Board has power, pursuant to section 80 of the Act, to allot £600,000 (nominal value) of shares until 27 November 2001. The board also has power to allot £49,816 (nominal value) of shares as if Section 89(1) of the Act did not apply until the date of the first annual general meeting of the Company following Admission.

5.2 Votes

Subject to any terms as to voting on which any Ordinary Shares may be issued by the Company in future and subject to disenfranchisement of a member in respect of Ordinary Shares in the event of non-payment of calls or other sums due and payable in respect of any Ordinary Shares, or in the event of non-compliance with a statutory notice requiring disclosure of any interest in shares, every member present in person or a corporation present by a duly authorised representative has one vote on a show of hands and on a poll every member present in person or by proxy or a corporation present by a duly authorised representative has one vote for each Ordinary Share of which he is the holder.

5.3 Dividends

Subject to the Act and every other statute and subordinate legislation for the time being in force concerning companies and affecting the Company, the Company may, by ordinary resolution, declare dividends to be paid to the members according to their respective rights and interests, but no dividend may exceed the amount recommended by the Directors. The Directors may declare and pay interim dividends (including dividends payable at a fixed rate) as appear to the Directors to be justified by the profits of the Company available for distribution.

Subject to any special rights attached to any Ordinary Shares issued by the Company in the future, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. Any dividend which is not claimed within twelve years of its declaration shall be forfeited and shall cease to remain owing by the Company. There are no specified dates on which entitlement to dividends on Ordinary Shares arises.

The Directors may also, with the prior authority of an ordinary resolution of the Company, direct payment of a dividend wholly or partly by the distribution of specific assets including paid-up shares or debentures of another company and direct payment of a scrip dividend in paid up shares in the Company.

5.4 Distribution of assets on winding-up

On a voluntary winding-up of the Company the liquidator may, with the sanction of an extraordinary resolution and any sanction required by law, divide among the members in kind the whole or any part of the assets of the Company. No member shall be compelled to accept any asset to which there is attached a liability or potential liability for the owner.

5.5 Share Capital

Without prejudice to any rights conferred on existing holders of any class of share, any share may be issued with such special rights, or restrictions as the Company may by ordinary resolution determine or, failing such determination, as the Directors may determine.

Subject to the provisions of the Act, the Company may issue shares which are to be redeemed, or are liable to be redeemed at the option of the Company or the shareholder, and may purchase its own shares including redeemable shares.

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled, or sub-divide its shares into shares of a smaller amount.

Subject to the provisions of the Act the Company may, by special resolution, reduce its share capital, capital redemption reserve and any share premium account in any way.

5.6 Variation of class rights

Whenever the capital of the Company is divided into different classes of shares, the rights attached to any class of shares, may be varied as may be provided by those rights or, in the absence of such provision with the consent in writing of the holders of three-quarters of the nominal amount of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the issued shares of that class.

5.7 Transfer

All transfers of shares in the Company shall be in any usual form or any form acceptable to the Directors. The Directors may decline to register a transfer of a share which is not fully paid or on which the Company has a lien (provided that such refusal does not prevent dealings in the shares from taking place on an open and proper basis).

The Directors may also refuse to register the transfer of a share unless:

- (a) the transfer is lodged, duly stamped at the registered office (or at such other place as the Directors may appoint) and is accompanied by the relevant share certificate and such other evidence reasonably required by the Directors to prove the title of the transferor to make the transfer.
- (b) the transfer is in respect of one class of share only.

6. Interests of directors and others

6.1 The interests of the Directors in the issued ordinary share capital of the Company, at the date of this document and as they will be following the Placing (assuming that the new Ordinary Shares are fully subscribed for), which have been, or which will require to be, notified to the Company pursuant to Sections 324 or 328 of the Act or which are required to be entered into the register maintained under Section 325 of the Act or are interests of a person connected (within the meaning of Section 346 of the Act) with a Director and the existence of which is known or could with reasonable diligence become known by a Director are as follows:

Director	No of Ordinary Shares	Percentage of Ordinary Share Capital	No of Ordinary shares to be held following the Placing	Percentage of Ordinary Share capital following the Placing
N N Graham Maw	Nil	Nil	10,400	0.1
J E Higham	4,880,000	58.8	4,670,000	52.8
E J Andrews	1,700,000	20.5	1,700,000	19.2
D J Drinan	1,700,000	20.5	1,560,000	17.6
M A Eve	Nil	Nil	14,000	0.2

Notes:

- 1. J E Higham's interest includes 415,000 shares held by the John Higham Family Trust.
- 2. D J Drinan's interest includes 100,000 shares held by his wife, Jean Drinan, and 100,000 shares held by The Drinan Trust (1996).
- 3. Save as disclosed above, following the placing no director or connected person (within the meaning of Section 346 of the Act) will have any interest (whether beneficial or non-beneficial) in the share capital of the Company.

6.2 The Highams Systems Services Group Employee Benefit Trust, of which J E Higham, E J Andrews, D J Drinan and M A Eve are trustees, will following Admission hold 56,000 Ordinary Shares, representing approximately 0.6 per cent of the Ordinary Share Capital following the Placing.

6.3 None of the Directors hold options over shares in the Company.

6.4 The Company is not aware of any person (other than the Directors) who as at the date of this document and following the Placing (assuming that the new Ordinary Shares are fully subscribed for) had, or will have, an interest (as defined for the purpose of section 198 of the Act) in 10 per cent or more of the Ordinary Shares.

7. Directors service agreements and directorships

7.1 On 29 October 1996 N N Graham Maw was appointed Non-executive Chairman and M A Eve was appointed Finance Director of the Company. M A Eve was appointed Company Secretary on 13 November 1996.

7.2 J E Higham entered into a service contract with the Company dated 3 December 1996, effective from 1 October, which provides for a salary of £100,000 per annum, the provision of a company car, private medical insurance and a contribution of up to 30 per cent of basic salary payable to Mr Higham's pension. This agreement is for a fixed period of twelve months and is terminable on six months' notice by either party thereafter.

7.3 E I Andrews entered into a service contract with the Company dated 3 December 1996, effective from 1 October, which provides for a salary of £100,000 per annum, the provision of a company car, private medical insurance and a contribution of up to 30 per cent of basic salary payable to Mr Andrews' pension. This agreement is for a fixed period of twelve months and is terminable on six months' notice by either party thereafter.

7.4 D J Drinan entered into a service contract with the Company dated 3 December 1996, effective from 1 October, which provides for a salary of £100,000 per annum, the provision of a company car, private medical insurance and a contribution of up to 30 per cent of basic salary payable to Mr Drinan's pension. This agreement is for a fixed period of twelve months and is terminable on six months' notice by either party thereafter.

7.5 M A Eve entered into a consultancy agreement with the Company on 26 September 1996 for an initial term of 12 months from 1 September 1996 which provides for fees of £500 plus VAT per day. This agreement is terminable on 3 months' notice by either party which shall expire at the earliest on 31 January 1998.

7.6 The services of N N Graham Maw were secured by a letter of appointment dated 30 October 1996 which provides for payment of a monthly fee of £2,500 in November and December 1996 and thereafter £5,000 per annum plus £500 per day for attendance on Company business.

7.7 The aggregate emoluments and benefits in kind payable by any company within the Group to or in respect of the Directors in the year ended 31 March 1996 amounted to £389,719 and for the year ending 31 March 1997, the aggregate emoluments and benefits in kind of the Directors are estimated to amount to £390,000.

7.8 Save as set out above, as at the date of this document, none of the Directors has an existing or proposed service contract with the Company.

- 7.9 Other than directorships of Companies within the Group the Directors currently hold and, in the previous five years, have held the following directorships:

Name	Current Directorships	Former Directorships
N N Graham Maw	Pex plc M S Instruments plc F G M Holdings Limited (Jersey)	Arcall (1991) Limited European Expedite Limited L J Weaver & Company Limited GPA Europe Limited GPA Financial Services Limited Almond Roca Limited R&M (Stafford House) Service Company R&M Pension Fund Trustees Limited Universal Royalties Limited Arcall Limited Delandale Laboratories Limited Storm Group plc
J E Higham	None	None
E I Andrews	None	None
D J Drinan	None	Dominion Insurance Systems Limited
M A Eve	Eve Consultancy Limited*	None

* non-trading

8. None of the Directors has any unspent convictions in relation to indictable offences or has been declared bankrupt. None of the Directors has been the director of a company which has gone into receivership or liquidation while they were a director of that company or within 12 months after they ceased to be a director of that Company. No public criticisms by statutory or regulatory authorities have been made against any of the directors.
9. There are no outstanding loans granted by the Company to any of the Directors, nor any guarantees provided by the Company for the benefit of any Director.
10. No Director has had any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Company and which had been effected by the Company in the current or immediately preceding financial year and/or which remain in any respect outstanding or unperformed.

11. Unapproved Share Option Scheme

The Company adopted an Employee Share Option Scheme on 15 November 1995 which is not approved by the Inland Revenue. Under the terms of this scheme, certain employees of the Company were granted options over ordinary shares of £1 each in the Company on 30 November 1995 and 18 November 1996 all exercisable at a price of £40 per share.

By written resolutions of the Company dated 28 November 1996, the authorised share capital of the Company was increased to £600,000; each ordinary share of £1 in the share capital of the Company was then sub-divided into 20 Ordinary Shares of 5p each and bonus shares were issued pursuant to a capitalisation issue. Consequently, the number of options held pursuant to the Unapproved Share Option Scheme was varied. Each option holder now has options over 200 Ordinary Shares for every option over an ordinary share of £1 previously held and the revised subscription price is now £0.20 per Ordinary Share. The auditors have certified this variation to be fair and reasonable in accordance with the rules of the Unapproved Share Option Scheme.

The number of Ordinary Shares under option under the Unapproved Share Option Scheme at the date of this document is as set out below:

Option holder	No. of Ordinary Shares under option		Total
	30 November 1995	18 November 1996	
P Shuff	20,000	20,000	40,000
D Morris	20,000	40,000	60,000
C Northam	20,000	240,000	260,000
B Martin	20,000	60,000	80,000

The options granted on 30 November 1995 are exercisable between 1 December 1998 and 30 November 2002. The options granted on 18 November 1996 are exercisable between 19 November 1999 and 18 November 2003.

The principal features of the Unapproved Share Option Scheme, the terms of which are set out in full in the Scheme Rules, are as follows:

11.1 Eligibility

Eligible Participants are:

- (a) any full time working director ie any director who is required to work at least 25 hours per week, excluding meal breaks; or
- (b) any employee of the Company and its subsidiaries for the time being who is not within 24 months of the date on which he is expected to retire in accordance with the terms of his contract of employment.

The options are non-transferable.

11.2 Grant of Options

The grant of options is at the absolute discretion of the Board. £1 is payable on the grant of an option and options may not be transferred. On 3 December 1996, the Board delegated this power and the determination of the exercise price to the Remuneration Committee.

11.3 Exercise Price

The Board determines the exercise price.

11.4 Scheme Limits

The maximum number of Ordinary Shares which may be issued at any time under the Unapproved Share Option Scheme shall not, when aggregated with Ordinary Shares issued over the seven years preceding such time pursuant to any other share option scheme, exceed 10 per cent of the issued Ordinary Shares of the Company.

11.5 Exercise of Options

- (a) Options granted under the Unapproved Share Option Scheme may be exercised by an option holder at any time after the third anniversary but before the seventh anniversary of the grant of the relevant option.
- (b) Options will normally lapse on cessation of employment except in special circumstances such as redundancy, disability, death, retirement or takeover. If an employee ceases employment three or more years after the date of the grant, other than in special circumstances, the Board may use its discretion to permit the exercise of outstanding options.
- (c) Options will in any event lapse on the earlier of the date seven years after the date of grant and twelve months after death.

11.6 Takeover and Amalgamation

- (a) Options may be exercised within six months of a general offer to all holders of Ordinary Shares being declared unconditional unless, within that period, the offeror becomes entitled to exercise compulsory rights of acquisition and gives notice to that effect in which case options shall be exercisable within fourteen days from the date of such notice.
- (b) Options may be exercised within six months of the Court sanctioning a compromise or arrangement for the purpose of the reconstruction of the Company or its amalgamation with another company or companies unless the compromise or arrangement provides for the adjustment of options.

11.7 Share rights

Any Ordinary Share allotted on the exercise of an option will rank *pari passu* in all respects with the Ordinary Shares of the Company in issue at that time and will participate in all dividends or other distributions, announced or paid by reference to a record date after the date of allotment.

11.8 Variation of capital

If there is a variation in the share capital of the Company the Board may adjust the number of shares under option, the number of Ordinary Shares subject to the Unapproved Share Option Scheme and/or the exercise price provided that the auditors issue a certificate confirming the adjustment to be fair and reasonable. The adjustment, once confirmed as fair, must be notified to all participants holding options.

11.9 Alterations

The Company may alter the rules but no amendment which affects existing holders in a material way may be made without the prior consent of the Company in general meeting.

11.10 Termination

The Unapproved Share Option Scheme shall terminate on 15 November 2002 unless previously terminated by the Board or by the Company in general meeting.

12. Approved Share Option Scheme

The Company adopted an Inland Revenue approved Executive Share Option Scheme on 17 May 1996. At the date of this document, no options have been granted under the Approved Share Option Scheme.

The principal terms of the Approved Share Option Scheme, the terms of which are set out in full in the Scheme Rules, are as follows:

12.1 Eligibility

Eligible Participants are:

- (a) any full time working director ie any director who is required to work at least 25 hours per week, excluding meal breaks; or
- (b) any employee of the Company and its subsidiaries for the time being who is not within 24 months of the date on which he is expected to retire in accordance with the terms of his contract of employment.

A Participant may not hold options over shares with an aggregate exercise price exceeding the greater of £30,000 or such limit prescribed by paragraph 28(1) of Schedule 9 Taxes Act 1988. The options are non-transferable.

12.2 Grant of Options

Options to subscribe for Ordinary Shares may be offered at the absolute discretion of the Board to Participants as it shall in its absolute discretion select. However, the Board shall not offer options to Participants who have had a material interest in a close company within the twelve months preceding the grant of the option where the close company is either the Company or a company which has control of the Company. On 3 December 1996, the Board delegated this power to the Remuneration Committee.

12.3 Exercise Price

The price at which options may be exercised is the higher of the nominal value of an Ordinary Share and the market value of an Ordinary Share as agreed with the Inland Revenue at the date at which the options are granted.

12.4 Exercise of options

- (a) Options granted under the Approved Share Option Scheme may be exercised in whole or in part by an option holder at any time after the third anniversary but before the tenth anniversary of the grant of the relevant options.
- (b) Options will normally lapse on cessation of employment except in special circumstances such as redundancy, disability, death, retirement or takeover. If an employee ceases employment three or more years after the date of the grant then, other than in special circumstances, the Board may use its discretion to permit the exercise of outstanding options.

- (c) Unexercised options will in any event lapse on the earlier of the date ten years after the date of grant and twelve months after death.

12.5 Takeover and Amalgamation

- (a) Options may be exercised within six months of a general offer to all holders of Ordinary Shares being declared unconditional unless, within that period, the offeror becomes entitled to exercise compulsory rights of acquisition and gives notice to the effect thereof in which case options shall be exercisable within fourteen days from the date of such notice.
- (b) Options may be exercised within six months of the Court sanctioning a compromise or arrangement for the purpose of the reconstruction of the Company or its amalgamation with another company or companies unless the compromise or arrangement provides for the adjustment of options.

12.6 Share rights

Any Ordinary Share allotted on the exercise of an option will rank *pari passu* in all respects with the Ordinary Shares of the Company in issue at that time and will participate in all dividends or other distributions, announced or paid by reference to a record date after the date of allotment.

12.7 Variation of capital

If there is a variation in the share capital of the Company the Board may adjust the number of shares under option, the number of Ordinary Shares subject to the Approved Share Option Scheme and/or the exercise price provided that the auditors issue a certificate confirming the adjustment to be fair and reasonable. The adjustment, once confirmed as fair, must be notified to all participants holding options. All adjustments are subject to the prior approval of the Board of Inland Revenue.

12.8 Alterations

The Company may alter the Rules but no amendment to the material advantage of existing or future option holders can be made without the prior consent of the Company in general meeting. All amendments are subject to the approval of the Board of Inland Revenue.

12.9 Termination

The Approved Share Option Scheme shall terminate on 17 May 2006 unless previously terminated by the Board or by the Company in general meeting.

13. Employee Benefit Trust

The Company set up an Employee Benefit Trust on 15 November 1995. During the financial year ended 31 March 1996 the Company made a contribution of £50,000 to the Trust as funding to acquire ordinary shares in the Company in due course. As at the date of this document, the Trust had not acquired any Ordinary Shares shares however, the Trust intends to apply for 56,000 Ordinary Shares pursuant to the Placing.

14. Profit Related Pay Scheme

The Company has been registered under an annual profit related pay scheme since 1 April 1994. Profit related pay is based on the overall results of the Company, and is paid in a single instalment after the end of the accounting year to which it relates.

15. Pensions

On joining the Company, employees are offered the opportunity to decide if they wish to split their remuneration entitlement between salary and pension contribution.

The Company has a Group Personal Pension Arrangement and a number of Individual Pension Plans with the Equitable Life Assurance Society. The former is a series of Personal Pension Plans effected by employees; these are contracts between the Society and the individual employee with the Company's involvement being that of premium payer.

Each of J E Higham, E I Andrews, and D J Drinan has an individual policy under the Company's Executive Pension Plan with Equitable Life Assurance Society. The Company has contracted with each of these Directors to make annual contributions of a sum up to 30 per cent of basic salary of that Director.

16. Placing agreement

- 16.1 By an agreement dated 4 December 1996 made between Teather & Greenwood (1) the Company (2) the Directors (3) and J E Higham and D J Drinan as shareholders in the Company (4), Teather & Greenwood has agreed to use its reasonable endeavours as agent for the Company and its shareholders to place the Placing Shares with placees at the Placing Price.
- 16.2 The Placing Agreement provides, inter alia, that in consideration of its endeavouring to procure subscribers and/or purchasers for the Placing Shares, conditional upon completion of the Placing, Teather & Greenwood will receive a fee of £30,000 from the Company and commissions of 2 per cent of the value of those Placing Shares for which Teather & Greenwood procure subscribers and/or purchasers at the Placing Price, plus VAT, if applicable.
- 16.3 The Placing Agreement also provides for the payment by the Company of Teather & Greenwood's reasonable legal and out of pocket expenses (including VAT thereon) which are attributable to work carried out by Teather & Greenwood in connection with the Placing and Admission.
- 16.4 The Placing Agreement contains (1) certain representations, warranties and indemnities by the Company and the Directors in favour of (amongst others) Teather & Greenwood and (2) provisions which allow Teather & Greenwood to terminate the Placing Agreement prior to the completion of the Placing in certain circumstances, including if any of the warranties is not true or accurate in any material respect.
- 16.5 The Placing will not proceed unless 275,000 new Ordinary Shares are subscribed for by placees subject to the Placing Agreement. If the Placing does not proceed all funds will be returned to placees at their own risk without interest thereon, not later than 23 December 1996.
- 16.6 Payment for the Placing Shares, in cleared funds, is required to be received from Placees by close of business on 10 December 1996.

17. Properties

The Company has entered into two leases relating to adjoining areas of Second Floor Offices at Hammond House, Croydon Road, Caterham, Surrey. The first lease is for a term of ten years from 25 March 1995 at the rent of £15,768 a year until 24 March 1997 and thereafter £18,396 a year subject to review on 25 March 2000. The Company has the option to determine the Lease on 24 March 2000. The Company pays a service charge towards the cost of the insurance of the building, and the maintenance of the structure, exterior and common parts which are the landlord's responsibility. The service charge is currently £9,401 per annum.

The second lease is on the same terms as the first lease except that the rent is £17,544 a year until 24 March 1997 and thereafter £20,468 a year subject to review on 25 March 2000. The current service charge in respect of this Lease is £10,234 per annum.

18. Material Contracts

18.1 The Company purchased the computer software which is currently marketed as the Highams Factoring System by way of assignment dated 8 July 1993. In the six months ended 30 September 1996 approximately 6 per cent of the Company's revenue was derived from licensing, enhancement and modification of the Highams Factoring System.

18.2 The Company entered into a Microsoft® Solution Provider Agreement on 23 February 1996. The Company is currently authorised as a Microsoft® Solution Provider until 31 December 1996.

18.3 Pursuant to the application for the ordinary share capital of the Company to be admitted to trading on AIM the Company has entered into the following agreements:

- (a) The Placing Agreement;
- (b) A Nominated Adviser and Nominated Broker Agreement dated 4 December 1996 appointing Teather & Greenwood as nominated adviser and nominated broker to the Company under which the Company has agreed to pay Teather & Greenwood £12,500 per annum for its services in carrying out those roles. This agreement is terminable on the giving of three months notice by Teather & Greenwood or the Company and contains certain indemnities by the Company in favour of (amongst others) Teather & Greenwood; and
- (c) A Lock-In Deed entered into on 4 December 1996 pursuant to which J E Higham, E I Andrews and D J Drinan have agreed certain restrictions over the disposal of Ordinary Shares held by them on Admission for a period of three years.

19. Taxation

The following paragraphs are intended as a general guide only and are based on current legislation and Inland Revenue practice.

Any person who is in doubt as to his taxation position or who is subject to taxation in any jurisdiction other than the United Kingdom should consult his professional advisers.

19.1 Taxation of dividends

The following summary assumes that the Company will not elect for any of its dividends to be treated as foreign income dividends. The Company has no present intention of making any such election.

No tax will be withheld by the Company when it pays a dividend. However, when paying a dividend, the Company has to account to the Inland Revenue for advance corporation tax ("ACT"), currently at the rate of one quarter of the amount of the dividend.

An individual shareholder who is resident for tax purposes in the UK will usually be entitled to a tax credit in respect of the ACT attributable to any dividend received. Such an individual shareholder's liability to UK income tax is calculated on the sum of the dividend and the tax credit which will be regarded as the top slice of the individual shareholder's income. The tax credit is 20 per cent of the combined amount of the dividend and the tax credit. The tax credit will be available to offset such shareholder's liability (if any) to income tax on the dividend. Any individual shareholder liable to income tax at only the lower or basic rates (currently 20 per cent and 24 per cent respectively) will have no further liability to income tax on the dividend. If the tax credit exceeds the individual shareholder's liability to income tax on the total of the dividend and the tax credit taking into account his other income and any other tax credits and allowances, that shareholder will be able to claim repayment of the excess tax credit from the Inland Revenue. Where an individual shareholder is liable to income tax at the higher rate (currently 40 per cent) the individual shareholder will normally be liable to pay additional income tax at a rate equivalent to the difference between the lower rate and the higher rate of income tax (that difference currently being 20 per cent).

A company resident in the United Kingdom for tax purposes is not normally subject to tax on any dividend received, and the dividend received and the tax credit in respect of such dividend will normally constitute franked investment income.

Whether shareholders who are resident for tax purposes in countries other than the UK are entitled to a refund or a credit of the whole or a proportion of the tax credit in respect of any dividends received depends in general upon the provisions of any double taxation convention which exists between such countries and the UK. Individual shareholders who are resident for tax purposes in countries other than the UK but who are Commonwealth citizens, nationals of the European Economic Area, residents of the Isle of Man or the Channel Islands or certain other persons are entitled to certain allowances in calculating their total UK income tax liability which may allow them, in appropriate cases, to reclaim the amount of the tax credit in cash. Shareholders who are resident for tax purposes in countries other than the UK should consult their own tax advisers concerning their tax liabilities on dividends received and what relief or credit may be claimed in respect of such tax credit in the country in which they are resident for tax purposes.

19.2 Stamp duty and stamp duty reserve tax

No stamp duty or stamp duty reserve tax will be payable on the issue of shares unless the subscriber is a person to whom the depositary receipt or clearance service charges to stamp duty reserve tax may apply. The transfer of shares of any class in the Company will, subject to any applicable exceptions, either be liable to ad valorem stamp duty at the rate of 50p for every £100 (or part thereof) of the consideration paid where the transaction is not dematerialised or where it is dematerialised will be subject to stamp duty reserve tax at the rate of 0.5 per cent of the consideration paid. Liability to pay any stamp duty or stamp duty reserve tax is that of the transferee or purchaser.

19.3 Taxation of capital gains

United Kingdom capital gains tax (or, for companies, corporation tax on chargeable gains) generally applies only to persons resident, or ordinarily resident, in the United Kingdom and to persons not so who carry on a trade in the United Kingdom through a branch or agency for whose purpose the assets disposed of were held. Gains arising to holders of assets who are taxed as dealers in securities may be treated as income and taxed as such.

Depending on the holder's circumstances, the transfer or disposal of shares may give rise to a chargeable gain or allowable loss for the purpose of United Kingdom taxation of capital gains.

20. Working capital

In the opinion of the Directors, having made due and careful enquiry and after taking into account the net proceeds of the Placing and the bank and other facilities available to the Group, the Group has sufficient working capital for its present requirements.

21. Indebtedness

At the close of business on 31 October 1996 the Group had a secured bank overdraft of £13,000. There are no other loans. Save as disclosed above the Group has no outstanding borrowings or indebtedness in the nature of borrowing, including loan capital created but not issued, term loans (whether or not guaranteed or secured) bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, obligations under finance leases, hire purchase commitments, mortgages, charges, guarantees or other contingent liabilities. At the same date the Group had bank balances and short term deposits of £190,000.

22. Litigation

The Group is not engaged in any legal or arbitration proceedings which are or may have a significant effect on the Group's financial position nor, so far as the Directors are aware, are any such proceedings pending or threatened by or against the Group.

23. Significant investments

As at the date of this document, the Company has no significant authorised or contracted capital commitments.

24. General

24.1 Save as disclosed in paragraph 16 of this Part III, no commissions, discounts, brokerages or other special terms have been granted in the last two years by the Company or any of its subsidiaries or associates in connection with the issue or sale of any part of their respective share or loan capital.

24.2 Save for the capital reorganisation effected on 28 November 1996 as disclosed in paragraph 2 Part III of this document, there has been no material change in the financial or trading position of the Company since the date to which the latest audited accounts were made up to 30 September 1996.

24.3 The estimated amount of the expenses of the Placing is £175,000 (exclusive of VAT) which (other than stamp duty payable by selling shareholders) is payable by the Company. On the basis that the Placing is subscribed in full, the net proceeds of the Placing available to the Company will be £221,000.

24.4 The financial information contained in the Accountants' Report set out in Part II of this document constitutes non-statutory accounts within the meaning of Section 240 Companies Act 1985.

24.5 In the opinion of the Directors, the minimum amount which must be raised pursuant to the Placing of new Ordinary Shares is £198,000 in respect of working capital and the costs and expenses of the Placing.

25. Consents

25.1 Binder Hamlyn have given and have not withdrawn their written consent to the inclusion in Part II of this document of a copy of their report and references thereto in the form and context in which they are included. Binder Hamlyn accept responsibility for that report for the purposes of regulation 13(1)(d) and paragraphs 45(i)(b)(iii) to Schedule I of the Regulations.

25.2 Teather & Greenwood has given and has not withdrawn its written consent to the issue of this document with inclusion herein of the references to its name in the form and context in which they are included.

Copies of this document are available for collection, free of charge, at the offices of Withers, 12 Gough Square, London EC4A 3DE and Teather & Greenwood, 12–20 Camomile Street, London EC3A 7NN during normal business hours on any week day (Saturdays and Public Holidays excepted) from the date hereof until a date not earlier than fourteen days following Admission.

4 December 1996