

Spargo Consulting PLC

Directors' Report and Group Financial Statements

Year ended 31 December 1997

Registered number 2337791

31 Beaufort Court
Admirals Way
Waterside
South Quay
London
E14 9XL



Spargo Consulting PLC

Directors' Report and Group Financial Statements

Contents	Page
Directors, Officers and Advisers	1
Chairman's Statement	2
Report of the Directors	3
Corporate Governance	7
The Remuneration Committee Report	9
Statement of Directors' Responsibilities	12
Auditors' Report	13
Group Profit and Loss Account	15
Group and Company Balance Sheet	16
Group Cash Flow Statement	17
Notes on the Accounts	18
Notice of Annual General Meeting	26

Spargo Consulting PLC

Directors

A L R Morton F.C.A.
Chairman

W A R Spargo
Chief Executive

C P Gouveia F.C.C.A.
Finance Director

M E W Jackson F.C.A.
Non-Executive

N Whitmey
Non-Executive

R M Lewis
Non-Executive

Secretary

C P Gouveia F.C.C.A.

Registered office

31 Beaufort Court
Admirals Way
Waterside
South Quay
London, E14 9XL

Auditors

KPMG Audit Plc
1 Waterloo Way
Leicester
LE1 6LP

Lawyers

Theodore Goddard
150 Aldersgate Street
London
EC1A 4EJ

Bankers

Bank of Scotland
38 Threadneedle Street
London
EC2P 2EH

Registrars

Lloyds Bank Registrars **Stockbrokers**
The Causeway
Worthing
West Sussex, BN99 6DA

Peel, Hunt & Company Limited
62 Threadneedle Street
London
EC2R 8HP

Spargo Consulting PLC

Chairman's Statement

Financial Review

I am delighted to report that we have made excellent progress during the year ended 31 December 1997. Turnover has increased by 21 per cent to £9,512,000 (1996: £7,853,000) and the profit before taxation has increased by 44.5 per cent to £1,740,000 (1996: £1,204,000).

Earnings per share have increased by 49.4 per cent to 9.22p (1996: 6.17p).

Cash at bank at the year end amounted to £2,102,000 (1996: £1,246,000).

The Directors are recommending a 50 per cent increase in the final dividend to 3.75p (1996: 2.50p) which, together with the interim dividend paid of 2.25p (1996: 2.00p) makes a total of 6.00p for the year (1996: 4.50p). The final dividend will be paid on 1 May 1998 to shareholders on the register at 20 March 1998.

Operational Review

Mr Dean Bircham resigned as Operations Director on 17 June 1997 and his responsibilities were assumed by our existing management which has been progressively developed and strengthened during the second half of the trading year. To counteract a difficult employment market we have created an employee recruitment division in order to engage sufficient personnel to service our clients' growing needs. Our billable staff have increased by 30 per cent during the year.

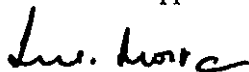
The Company has continued to gain new "blue chip" clients during the year and is increasing its sales force in 1998 in order to cope with the buoyant market conditions for its services. Our operating margin improved during the year as more permanent staff were recruited.

Current Trading and Prospects

The Company continues to gain new clients and current trading and prospects are excellent with good demand in both our core business and Year 2000 services. We intend to continue developing the Company by organic growth and by selective earnings enhancing acquisitions.

General

I would like to express my appreciation and thanks to all our employees for their continued commitment and support to the growth and development of the Company.



A L R MORTON
Chairman

Spargo Consulting PLC

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Principal activity and business review

The principal activity of both the Company and the Group is the supply of computer software consultancy services.

Turnover amounted to £9.51 million compared with £7.85 million for the previous year representing an increase of 21 per cent. As discussed in the Chairman's Statement and Chief Executive's Review, solid growth has been achieved, particularly in the banking and financial services sector of the business, and a number of important customers have been won. The growth of the Company's client portfolio continues to strengthen the customer base, which in turn gives a good spread of business in proportion to total revenue.

All aspects of the Company's financial performance in 1997 are very encouraging. Turnover and profits before and after taxation continued to grow and operating cash flows achieved during the year were very strong. Net cash balances at the end of the year on current and deposit accounts stood at £2.10 million (1996: £1.25 million). With sound management of liquid resources there was a significant increase in gross interest received to £96,000, an increase of £34,000 on the previous year. The Company continues to be in a healthy financial position and is well placed for future organic growth.

Further information concerning the operations of the Company and its progress during the year together with a review of the business and future developments is contained in the Chairman's Statement.

Results and dividends

The operating profit of £1,652,000 (1996 : £1,159,000) was a substantial improvement on the previous year giving rise to an increase in operating margin to 17.4 per cent (1996 : 14.8 per cent).

The profit for the financial year after taxation was £1,152,000 (1996 : £771,000). After deducting total ordinary dividends of £750,000 for the full financial year, the profit retained in the Company and transferred to reserves is £402,000 (1996 : £208,000).

Details of the dividends paid and proposed in the year are shown in the Chairman's Statement.

Directors and Directors' interests

The names of the Directors currently in office are shown on page 1. All of these directors held office throughout the year. In addition Dean Bircham served as Operations Director until his resignation on 17 June 1997.

Bob Morton, aged 56, has been a Director and Chairman of the Company since 1989. He is a Chartered Accountant and a Director and Non-Executive Chairman of Incepta Group PLC, Silvermines Group PLC, Jordec Group Plc, British Thornton Holdings Plc, Deputy Chairman of Bickerton Group Plc, and a Director of several unquoted private companies.

Tony Spargo, aged 52, has been Chief Executive Director since establishing the Company with Bob Morton. He has been associated with the computer software industry for over 27 years.

Carl Gouveia, aged 49, is a Certified Accountant and was appointed on 14 December 1994 as Finance Director and Company Secretary.

Michael Jackson, aged 47, was appointed as a Non-Executive Director on 27 May 1994. He is a Chartered Accountant and both Managing Director and controlling shareholder of Elderstreet Investments Limited, whose activities include acting as an adviser to the Kleinwort Development Fund PLC. He is also a Director and Non-Executive Chairman of the Sage Group PLC, Deputy Chairman of British Thornton Holdings Plc, a Director of Hatpin Plc, and a Director of several unquoted companies.

Nicholas Whitney, aged 48, was appointed as a Non-Executive Director on 27 May 1994. He is a solicitor and former partner from 1980 to 1993 of Theodore Goddard when he retired from practice.

Richard Lewis, aged 47, was appointed as a Non-Executive Director on 27 May 1994. He is a Director of a number of private companies and he is a member of the Securities Institute.

The Directors who held office at the end of the financial year had the following beneficial interests in the ordinary shares of the Company as recorded in the register of directors' share and debenture interests.

Director	At 31 December 1997		At 31 December 1996	
	No. of ordinary shares of 1p each	Percentage of issued share capital	No. of ordinary shares of 1p each	Percentage of issued share capital
W.A.R Spargo	5,000,000	40.0	5,000,000	40.0
A.L.R. Morton	* 4,349,000	34.8	* 4,349,000	34.8
M.E.W. Jackson	17,500	-	17,500	-
N. Whitney	10,000	-	2,600	-
R.M. Lewis	nil	-	nil	-
C.P. Gouveia	nil	-	nil	-

* 4,324,000 of the shares attributable to Mr. A.L.R. Morton are held in trust on behalf of his children.

Details of the Directors' share options are given in the Remuneration Committee Report.

There has been no change in the Directors' interests in the shares of the Company or their share options between the end of the financial year and the date of this report.

Directors' and Officers' Insurance

The Company maintains insurance cover for all its Directors and Officers against liabilities which may be incurred by them while acting as Directors and Officers.

Creditors Payment Policy

Payment to creditors is normally between 15 and 60 days from the end of the month in which the supply of goods and services is received. It is the Company's policy to agree terms in writing with about 75 per cent of all suppliers. All other suppliers are made aware of the Company's payment terms and these terms are strictly adhered to. The number of creditor days outstanding at 31 December 1997 was 32.

Substantial Shareholdings

The only substantial shareholding, apart from the Directors' interests set out above, is as follows:

	At 31 December 1997	
	No. of ordinary shares of 1p each	Percentage of issued share capital
Pershing Keen Nominees Limited	1,268,057	10.1

The Company, as at the date of this report, has not been notified of any other shareholdings of 3% or more of the issued share capital.

Share Capital

At the Annual General Meeting to be held on 28 April 1998, an ordinary resolution will be proposed which will authorise the Directors to allot relevant securities of the Company, within the meaning of Section 80 of the Companies Act 1985, up to a maximum amount of £41,666 which represents approximately one third of the issued share capital of the Company as at 1 March 1998. This authority will expire at the earlier of the conclusion of the next Annual General Meeting or fifteen months after the passing of this resolution. The Directors consider that the Company should maintain an adequate margin of unissued shares for use, for example, in connection with any future acquisition, although the Directors have no present intention of issuing any shares.

The Company is seeking to obtain the authority of shareholders under Section 95 of the Companies Act 1985 to disapply the provisions of Section 89 of the Act, in certain limited circumstances. Accordingly a special resolution will be proposed at the Annual General Meeting to allow the Directors in certain limited circumstances to allot shares up to an amount equal to £6250 representing 5 per cent of the present ordinary share capital as at 1 March 1998 for cash other than on a strictly pro-rata basis. This authority will expire at the earlier of the conclusion of the next Annual General Meeting or fifteen months after the passing of this resolution.

Employment Policy

It is the policy of the Company that there shall be no unfair discrimination in considering applications for employment, including those from disabled persons. All employees are given equal opportunities so that their developing experience and expertise can be encouraged, and where appropriate, training and career development is offered.

The number of employees at the end of the year has grown by 35 per cent. The Company continues to supplement its work force by the use of freelance subcontractors where necessary. The Company encourages a policy of employees sharing in and contributing to the progress of the Company and continues to develop more emphasis on staff benefits and training.

Political and charitable contributions

The Company made no political or charitable contributions during the year.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office and a resolution for its re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.



By Order of the Board
C P Gouveia
Secretary

3 March 1998

Spargo Consulting PLC

For the year ended 31 December 1997

Corporate Governance

The Company has complied throughout the whole financial year with the provisions of the Cadbury Code of Best Practice.

Board of Directors

The Board of Directors of Spargo Consulting PLC, comprising three Executive Directors and three Non-Executive Directors, meet regularly throughout the year and retain full and effective control over the Company. All of the major decisions affecting the Group are made by the Board including corporate strategy, operating policy, Board appointments and the investment of funds surplus to current operating requirements.

Any director who is appointed during the year is required to stand for election at the first Annual General Meeting after his appointment. In addition, one third of all directors are required to retire by rotation at each Annual General Meeting of the Company.

Board Committees

Certain of the Board's duties are delegated to committees of the Board, whose responsibilities and composition are as follows :

The Audit Committee is formally constituted with written terms of reference to ensure that an objective and professional relationship is maintained with the external auditors. It comprises wholly the three Non-Executive Directors under the chairmanship of Mr. M.E.W. Jackson. The Finance Director is not a member but is invited to attend committee meetings. The external auditors also attend for part or the whole of each meeting and have direct access to the chairman of the committee without the presence of any Executive Director. The role of this committee also includes the monitoring and evaluation of the Group's system of internal financial control, examination of the annual financial statements and announcements, accounting policies and any such other matter as the Board may require.

The Remuneration Committee is also formally constituted with written terms of reference consisting of the three Non-Executive Directors under the chairmanship of Mr. M.E.W. Jackson. The duties of the committee are to determine, on behalf of the Board and the shareholders, the Group's policy on Executive remuneration and specific remuneration packages for each of the Executive Directors. The Chairman of the Board, although not being a member of the committee, is invited to attend meetings and is consulted about remuneration proposals. A report by the Remuneration Committee is given on page 9.

Internal Financial Control

The Board of Directors has overall responsibility for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding :

- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Group has also put in place formal lines of reporting which includes but is not limited to :

- detailed budgets and plans including detailed reviews at all levels of the operation and formal reviews and approvals of the annual budget by the directors; and
- monitoring of actual results compared with budgets.

The Board, with the assistance of the Audit Committee, have reviewed the effectiveness of the Group's internal financial control framework for the period covered by these financial statements.

Going Concern

After making enquiries the Board has reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Board continues to adopt the going concern basis in preparing the financial statements.

Spargo Consulting PLC

For the year ended 31 December 1997

The Remuneration Committee Report

The Remuneration Committee is appointed by the Board and comprises the three Non-Executive Directors under the chairmanship of Mr M.E.W. Jackson. The committee confirms that, throughout the financial period, the Company has complied with the best practice provisions regarding remuneration committees set out in Section A of the annexe to the Listing Rules.

Directors' Emoluments

The committee has an overall responsibility to determine aspects of the remuneration packages of the Executive Directors in order to attract, retain and motivate the highest calibre of executive capable of achieving the Company's objectives. The Directors' remuneration is reviewed on an annual basis with due consideration to comparability within the market place and the Company's closest competitors. The remuneration of the Non-Executive Directors is determined by the full board within the limits set in the Company's Articles of Association. In framing its remuneration policies the committee has given full consideration to the best practice provisions set out in Section B of the annexe to the Listing Rules.

All Executive Directors have service agreements, which do not expire beyond a period of one year.

A detailed summary of the Directors' emoluments for the year ended 31 December 1997 is set out in the table below. The elements of the remuneration package are as follows:

Basic Salary

Each Executive Director's basic salary is reviewed annually and is based on individual performance during the year and achievement of objectives. In the case of these Directors, other than the Chairman, the Chairman assists the Committee in this review.

Benefits

Benefits in kind for each Executive Director consist of the provision of a company car, private fuel and in the case of the Chief Executive Director, medical insurance.

Bonus

Bonuses are paid to Executive Directors for personal performance and achieving financial targets comprising profit before tax, earnings per share and cash flow.

Pensions

There was no Directors' Pension scheme during the year.

A detailed summary of the Directors' emoluments in accordance with the Greenbury Code of Best Practice is set down in the table below as follows:

Remuneration of Directors

	Salary & Fees	Benefits	Performance Related Pay & Bonuses	1997 Total	1996 Total
	£	£	£	£	£
Executive					
W.A.R. Spargo	150,000	12,945	3,343	166,288	170,235
C.P. Gouveia	47,000	6,245	12,000	65,245	57,158
D. Bircham (resigned 17/6/97)	52,213	3,763	-	55,976	22,285
R. Kinloch (resigned 14/5/96)	-	-	-	-	114,940
A.L.R. Morton	30,000	-	-	30,000	30,000
Remuneration as Executives				317,509	394,618
Non-Executive					
M.E.W. Jackson	7,500	-	-	7,500	7,500
R. Lewis	7,500	-	-	7,500	7,500
N. Whitney	7,500	-	-	7,500	7,500
Remuneration as Directors				22,500	22,500
Total emoluments:				340,009	417,118

There is a long term incentive scheme based on the performance of the Company's shares. Payments will be based on the difference between the share price at the time of exercise (between 29 July 2000 and 28 July 2007, at the discretion of the beneficiary) and the price of 116 pence. The only Director currently participating in these arrangements is C.P. Gouveia, to whom payments will be based on a notional holding of 35,000 shares.

Terms of Office

Bob Morton has a consultancy agreement with the Company, which may be terminated by notice given by either party of not less than one year.

Tony Spargo retires from the Board of Directors by rotation and, being eligible, offers himself for re-election. He has a service agreement with the Company, which may be terminated by notice given by either party of not less than one year.

Carl Gouveia has a service agreement with the Company, which may be terminated by notice given by either party of not less than three months.

The terms and conditions applied to the Non-Executive Directors are set down in a Letter of Appointment. As a Director of Spargo Consulting PLC, each appointment of the Non-Executive Directors is subject to the provisions of the Articles dealing with appointment and retirement by rotation. After consultation with the Board, and subject to shareholders' approval, subsequent appointments will on each occasion be renewed at the next Annual General Meeting at which the Non-Executive Director would next ordinarily retire by rotation. If the Non-Executive Director is not re-elected at such times by the shareholders there shall be no entitlement to any compensation for loss of office.

Richard Lewis retires from the Board of Directors by rotation and, being eligible, offers himself for re-election.

Share Options

The Company operates a share option scheme for its employees (including Executive Directors of the Group) as defined in the Share Option Scheme which was established by a resolution of the Board of Directors of the Company dated 16 May 1994. Options issued under this Executive Share Option Scheme 1994 may be exercised between three and ten years after the date granted.

The decision to grant share options is discretionary and it is the duty of the Remuneration Committee to consider the granting of options from recommendations tabled by the Chairman. Additional awards under this scheme were made to employees during the year. The principal aim of the scheme is to increase the number of employees with a stakeholding in the Company.

Share options granted to Directors and employees are as follows:

	As at 1 January 1997	Number of options Granted/ (cancelled) during the year	Exercised during the year	As at 31 December 1997	Exercise Price	Dates exercisable
<u>Directors</u>						
C.P. Gouveia	40,000	-	-	40,000	81p	21 April 1998 to 20 April 2005
<u>Employees</u>	110,000	-	-	110,000	111p	21 June 1997 to 20 June 2004
	50,000	-	-	50,000	81p	21 April 1998 to 20 April 2005
	-	35,000	-	35,000	116p	29 July 2000 to 28 July 2007

The above options are held under an executive share option scheme. The market price of the shares at 31 December 1997 was 150.5 pence. During the year the market price moved within a range from 108.5 pence to a high of 174.5 pence.



M E W JACKSON
Chairman of the Remuneration Committee

Spargo Consulting PLC

Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors confirm that they have complied fully with these requirements in preparing the financial statements on pages 15 to 25.

Report of the auditor KPMG Audit Plc to the members of Spargo Consulting PLC

We have audited the financial statements on pages 15 to 25. We have also examined the amounts disclosed relating to emoluments, share options, long term incentive schemes and Directors' pension entitlement which form part of the remuneration committee report on pages 9 to 11.

Respective responsibilities of Directors and Auditors

As described on page 12 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 7 and 8 on the Company's compliance with paragraphs of the Cadbury Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43 (j) and 12.43 (v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary, and we do not, express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control and going concern on pages 7 and 8, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 7 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

A handwritten signature in black ink, appearing to read 'KPMG Audit Plc', written over a horizontal line.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leicester

3 March 1998

Spargo Consulting PLC

Group Profit and Loss Account for the year ended 31 December 1997

	Note	1997	1996
		£'000	£'000
Turnover - continuing operations	2	9,512	7,853
Cost of sales		(5,770)	(4,917)
Gross profit		<u>3,742</u>	<u>2,936</u>
Selling and distribution costs		(312)	(370)
Administrative expenses		(1,778)	(1,407)
Operating profit - continuing operations		<u>1,652</u>	<u>1,159</u>
Interest receivable and similar income	5	96	62
Interest payable and similar charges	6	(8)	(17)
Profit on ordinary activities before taxation	3	<u>1,740</u>	<u>1,204</u>
Taxation on profit on ordinary activities	7	(588)	(433)
Profit for the financial year		<u>1,152</u>	<u>771</u>
Interim dividend paid 2.25p per ordinary share (1996 : 2.00p)		(281)	(250)
Proposed final dividend 3.75p per ordinary share (1996 : 2.50p)		(469)	(313)
Retained profit for the financial year		<u>402</u>	<u>208</u>
Statement of movement on reserves			
Retained profit brought forward		1,150	942
Retained profit for the year		402	208
Retained profit carried forward		<u>1,552</u>	<u>1,150</u>
Earnings per ordinary share	8	9.22 p	6.17p

The Group had no recognised gains or losses other than those reported in the profit and loss account.

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Group and Company Balance Sheet at 31 December 1997

	Note	1997		1996	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9		196		198
Current assets					
Debtors	10	1,420		1,368	
Cash at bank and in hand	11	<u>2,102</u>		<u>1,246</u>	
		3,522		2,614	
Creditors:					
amounts falling due within one year	12	<u>(2,023)</u>		<u>(1,531)</u>	
Net current assets			<u>1,499</u>		<u>1,083</u>
Total assets less current liabilities			1,695		1,281
Creditors:					
amounts falling due after more than one year	13		(18)		(6)
Net assets			<u>1,677</u>		<u>1,275</u>
Capital and Reserves					
Called up share capital	14		125		125
Profit and loss account			1,552		1,150
Shareholders' Funds	15		<u>1,677</u>		<u>1,275</u>

These financial statements were approved by the board of directors on 3 March 1998 and signed on its behalf by

W A R Spargo

A L R Morton

Directors

The notes on pages 18 to 25 form part of these financial statements

Spargo Consulting PLC

Group Cash Flow Statement

For the year ended 31 December 1997

	Note	1997 £'000	1996 £'000
Net cash inflow from operating activities	16	1,909	1,451
Returns on investments and servicing of finance			
Interest received		96	62
Interest element of finance lease rental payments		(8)	(17)
Net cash inflow from returns on investment and servicing of finance		88	45
		<u>1997</u>	<u>1996</u>
Taxation			
Corporation Tax paid (including advance corporation tax)		(454)	(400)
Investing activities			
Proceeds from disposal of tangible fixed assets	9	-	-
Purchase of tangible fixed assets	(43)	(34)	(21)
Equity dividends paid		(594)	(531)
Net cash inflow before use of liquid resources and financing		<u>915</u>	<u>544</u>
Management of Liquid Resources			
Increase in Term Deposits		(1,255)	-
Financing			
Capital element of finance lease rental payments		(59)	(100)
(Decrease)/Increase in cash	17	<u>(399)</u>	<u>444</u>
Reconciliation of net cash flow to movement in net funds (Note 17)			
		1997 £'000	1996 £'000
(Decrease)/Increase in cash in the period		(399)	444
Cash outflow from change in liquid resources		1255	-
Cash outflow from investment in finance leases		59	100
Change in net funds resulting from cash flows		<u>915</u>	<u>544</u>
New finance leases		(37)	(78)
Change in net funds in the period		<u>878</u>	<u>466</u>
Net Funds 1 January		1181	715
Net Funds 31 December		<u>2059</u>	<u>1181</u>

Spargo Consulting PLC

Notes on the Accounts

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

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

Consolidation

The Group accounts consolidate the financial statements of the Company and its subsidiary undertaking (Note 19). The financial statements of the subsidiary undertaking are coterminous with that of the Company. The acquisition method of accounting has been adopted.

In accordance with Section 230 of the Companies Act 1985 a separate profit and loss account of Spargo Consulting PLC is not presented.

Fixed assets and depreciation

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer equipment	between 20% and 33% per annum.
Office equipment	between 20% and 50% per annum.
Motor vehicles	25% per annum.
Leasehold improvements	10% per annum.

Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments. All other leases are accounted for as 'operating leases' and the rental payments are charged to the profit and loss account on a straight line basis over the life of each lease.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of services to customers during the year.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

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Notes (continued)

2 Turnover

Analysis of turnover by geographical market of destination:

	1997	1996
	£'000	£'000
United Kingdom	9,458	7,711
Rest of Europe	54	142
	<u>9,512</u>	<u>7,853</u>

The Group has one class of business, being the supply of computer software consultancy services. Analyses of the Group's turnover, operating profit and net assets by geographical origin are not produced as all operations emanate from the United Kingdom.

3 Profit on ordinary activities before taxation

	1997	1996
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration	10	9
Non-audit fees paid to the auditors and its associates	6	2
Depreciation	89	97
Operating lease rentals paid:		
- Other	67	61
	<u>67</u>	<u>61</u>

Profit after tax for the financial year dealt with in the financial statements of the Company was £1,152,000 (1996 : £771,000).

Spargo Consulting PLC

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year was 126 (1996 : 112)

The aggregate payroll costs of these persons were as follows:

	1997	1996
	£'000	£'000
Wages and salaries	4,298	3,750
Social security costs	434	391
	<u>4,732</u>	<u>4,141</u>

Details of the Directors' emoluments and long term incentive schemes are given in the Remuneration Committee Report on pages 9 to 11.

5 Interest receivable and similar income

	1997	1996
	£'000	£'000
Bank interest receivable	<u>96</u>	<u>62</u>

6 Interest payable and similar charges

	1997	1996
	£'000	£'000
On lease purchase contracts	<u>8</u>	<u>17</u>

7 Taxation

	1997	1996
	£'000	£'000
UK Corporation Tax at 33.9% (1996 : 36.5%)	589	439
Adjustment relating to prior year Corporation Tax	(1)	(6)
	<u>588</u>	<u>433</u>

Spargo Consulting PLC

Notes (continued)

8 Earnings per ordinary share

Earnings per share have been calculated on the profit for the financial year of £1,152,000 (1996 : £771,000) and the average number of ordinary shares in issue during the year of 12,500,000 1 pence shares (1996 : 12,500,000). Earnings per share on a fully diluted basis are not materially different.

9 Tangible fixed assets

Group and Company :

£'000	Leasehold Improvements	Office Equipment Furniture Fittings	Computer Equipment	Motor Vehicles	Total
Cost					
At 31 December 1996	28	71	42	290	431
Additions	-	19	24	56	99
Disposals	-	-	-	(90)	(90)
At 31 December 1997	28	90	66	256	440
Depreciation					
At 31 December 1996	20	57	27	129	233
Charge for the year	2	9	11	67	89
Disposals	-	-	-	(78)	(78)
At 31 December 1997	22	66	38	118	244
Net book value					
At 31 December 1997	6	24	28	138	196
At 31 December 1996	8	14	15	161	198

The total net book value of motor vehicles of £138,000 (1996 : £161,000) is in respect of assets acquired under finance lease purchase contracts. Depreciation for the year on these assets was £67,000 (1996: £72,000) .

Spargo Consulting PLC

Notes (continued)

10 Debtors	1997	1996
Group and Company :		
	£'000	£'000
Trade debtors	1,230	1,217
Prepayments and accrued income	73	73
ACT recoverable after more than one year	117	78
	1,420	1,368

11 Cash at bank and in hand	1997	1996
	£'000	£'000
Cash	847	1246
Short term deposits	1255	-
	2102	1246

12 Creditors: amounts falling due within one year	1997	1996
Group and Company :		
	£'000	£'000
Obligations under finance leases and hire purchase contracts	25	59
Trade creditors	232	258
Other creditors including taxation and social security:		
Corporation Tax	557	384
Other taxes and social security	429	346
Proposed Dividend	469	313
Accruals and deferred income	311	171
	2,023	1,531

Spargo Consulting PLC

Notes (continued)

13 Obligations under finance leases and hire purchase contracts Group and Company :

The maturity of obligations under finance leases and hire purchase contracts net of finance charges, is as follows:

	1997	1996
	£'000	£'000
Within one year	25	59
In the second to fifth years	18	6
	<u>43</u>	<u>65</u>

14 Called up share capital

	1997	1996
	£'000	£'000
Authorised	<u>167</u>	<u>167</u>
Allotted, called up and fully paid :		
Ordinary shares of 1p each	<u>125</u>	<u>125</u>

15 Reconciliation of Movement in Shareholders' Funds Group and Company :

	1997	1996
	£'000	£'000
At 1 January	1275	1067
Profit for the financial year	1,152	771
Dividends paid and proposed	(750)	(563)
At 31 December	<u>1677</u>	<u>1275</u>

Spargo Consulting PLC

Notes (continued)

16 Reconciliation of operating profit to net cash inflow from operating activities

	1997	1996
	£'000	£'000
Operating profit	1,652	1,159
Depreciation charge	89	97
(Increase)/Decrease in debtors	(13)	338
Increase/(Decrease) in creditors	197	(127)
(Profit) on sale of fixed assets	(16)	(16)
Net cash inflow from operating activities	<u>1,909</u>	<u>1,451</u>

17 Analysis of changes in net funds

	Balance at 1.1.97	Cash Flow	Other Non Cash Changes	Balance at 31.12.97
	£'000	£'000	£'000	£'000
Cash at bank and in hand :	1,246	(399)	-	847
Term Deposits	-	1255	-	1255
Finance leases	(65)	59	(37)	(43)
Net funds	<u>1,181</u>	<u>915</u>	<u>(37)</u>	<u>2,059</u>

Spargo Consulting PLC

Notes (continued)

18 Financial commitments

Group and Company :

Contracted capital expenditure at the year end amounted to £10,925 (1996 : £15,000)

Annual commitments under operating leases were as follows:

	1997 Land and Buildings	Other	1996 Land and Buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
In the second to fifth years	87	1	66	1
	<u>87</u>	<u>1</u>	<u>66</u>	<u>1</u>

19 Subsidiary undertaking

The Company holds 100% of the issued 100 ordinary shares of £1 each in Spargo Computer Services Limited. This subsidiary undertaking did not trade during the financial year.

At 31 December the net assets of Spargo Computer Services Limited were :

	1997	1996
	£	£
Amount owed by parent company	100	100
Net Assets	<u>100</u>	<u>100</u>
Share Capital	<u>100</u>	<u>100</u>

The assets and liabilities of Spargo Computer Services Limited have been included in the Group accounts. Due to the immateriality of the amount involved there is no significant difference between the Group and Company Balance Sheets.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Spargo Consulting PLC will be held at 31 Beaufort Court, Admirals Way, Waterside, South Quay, London, E14 9XL, on Tuesday 28 April 1998 at 12.00 noon to consider and, if thought fit, pass the following resolutions:

Ordinary Resolutions

1. That the Directors' Report and Group Financial Statements for the year ended 31 December 1997 be and are hereby received;
2. That a final dividend of 3.75 pence per share be declared in respect of the year ended 31 December 1997, payable on 1 May 1998 to members on the register on 20 March 1998;
3. That Mr WAR Spargo, who retires by rotation in accordance with Article 101, being eligible, be re-appointed a Director of the Company;
4. That Mr R Lewis, who retires by rotation in accordance with Article 101, being eligible, be re-appointed a Director of the Company;
5. That KPMG Audit Plc be and are hereby re-appointed as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which the accounts are laid before the Company at a remuneration to be fixed by the Directors;
6. That the Directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 ("the Act") to exercise all powers of the Company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £41,666 provided that this authority shall expire, unless previously renewed, revoked or varied by the Company in general meeting, fifteen months after the passing of this Resolution, or, if earlier, at the conclusion of the annual general meeting next following the passing of this Resolution save that, before such expiry, the Company may make any offer or agreement which would or might require relevant securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot relevant securities in pursuance of any such offer or agreement, and so that all unexercised authorities previously granted to the Directors to allot relevant securities be and are hereby revoked.

Special Resolution

7. That, subject to the passing of Resolution 6, the Directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined at section 94(2) of the Act) for cash pursuant to the general authority conferred on them by Resolution 6 as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with an offer of securities, open for acceptance for a period fixed by the Directors, to holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and

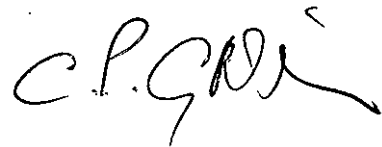
- (b) the allotment (otherwise than pursuant to paragraph (a) above) of securities up to an aggregate nominal amount of £6250,

and shall expire, unless previously renewed, revoked or varied by the Company in general meeting, at such time as the general authority conferred on the Directors by Resolution 6 expires save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry and, notwithstanding such expiry, the Directors may allot equity securities in pursuance of any such offer or agreement.

3 April 1998

Registered Office
31 Beaufort Court
Admirals Way
Waterside
South Quay
London E14 9XL

By Order of the Board
Carl P Gouveia
Secretary



Notes:

- 1. A member entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and vote on his or her behalf. A proxy need not be a member of the Company. The completion and return of a form of proxy will not prevent a member from attending and voting at the meeting in person. A form of proxy is enclosed.*
- 2. To be valid, any form of proxy and the power of attorney or other authority (if any) under which it is executed or a notarially certified office copy of such power or authority must be delivered to or received by the Company's registrars, Lloyds Bank Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the form of proxy proposes to vote.*
- 3. Copies of the Directors' service contracts, where applicable, will be available for inspection during normal business hours on any weekday (Saturday and public holidays excepted) at the registered office until the date of the meeting and for at least 15 minutes prior to and until the conclusion of the meeting.*