

CHC International Plc
(formerly Spargo Consulting PLC)

Directors' Report and Financial Statements

Year ended 31 December 1998

Registered number 2337791



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

CHC International Plc

Directors' Report and Financial Statements

Contents	Page
Directors, Officers and Advisers	1
Report of the Directors	2
Statement of Directors' Responsibilities	5
Auditors' Report	6
Profit and Loss Account	7
Company Balance Sheet	8
Cash Flow Statement	9
Notes on the Accounts	10

CHC International Plc

Directors

J J Cassese

Chairman & Chief Executive Officer (USA)

W J Murphy

Chief Finance Officer (USA)

P A Fredette

President Solutions Division (USA)

W A R Spargo

Managing Director (UK)

C P Gouveia F.C.C.A.

Finance Director (UK)

Secretary

C P Gouveia F.C.C.A.

Registered office

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

Auditors

Grant Thornton
Grant Thornton House
Melton Street
Euston Square
London, NW1 2EP

Lawyers

Norton Rose
Kempson House
Camomile Street
London
EC3A 7AN

John Photiades & Co
Longmire House
36-38 London Road
St Albans
Hertfordshire, AL1 1NG

Bankers

Bank of Scotland
38 Threadneedle Street
London
EC2P 2EH

Barclays Bank
Burleigh House
357 Strand
London, WC2R 0NX

CHC International Plc (formerly Spargo Consulting PLC)

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Principal activity

The principal activity of the company is the supply of computer software consultancy services.

Business review

The major event during the year was the sale of the business on a share for share basis to Computer Horizons Corp., New Jersey, U.S.A. (Computer Horizons). The acquisition of Spargo Consulting PLC (Spargo) was based on the recognition that Spargo is one of the leading information technology service providers in the UK offering a range of services to its blue chip client base. Computer Horizons considered Spargo as having a considerable infrastructure and experienced management team that will compliment the development of Computer Horizons information technology services in the UK.

On the day before the Offer was announced in May 1998 Spargo was valued in excess of £40 million. This was based on an approximate value of £3.24 for each Spargo share derived from the closing Computer Horizons common stock price on NASDAQ on 21 May 1998 and the Illustrative Exchange Rate at the time. The share for share exchange was based on receiving 0.15096 of a share of Computer Horizons common stock for each Spargo share. The Offer became unconditional on 29 June 1998. At this point Spargo became a wholly owned subsidiary of Computer Horizons. Subsequently the entire issued share capital of Spargo was de-listed from the Official List of the London Stock Exchange on 24 August 1998.

The directors supported the acquisition as they considered that Computer Horizons, a mature and well established company in the United States of America, would represent a partner which has both the financial and development resources to support our growing client base and enhance the range of services that the company can provide. Computer Horizons is a public company quoted on the NASDAQ with a current market capitalisation of US \$700 million. Computer Horizons provides diversified information technology services and employs over 4,000 people internationally operating from a network of 45 offices from inside and outside the USA.

Since completing the acquisition Spargo has been renamed "CHC International Plc". The new name was adopted on 1 December 1998 to emphasise the international presence and development of Computer Horizons in the UK.

Results

I am delighted to report a substantial growth in turnover to £13.10 million compared with £9.51 million for the previous year representing an increase of 37.8 per cent. This reflects solid growth across the whole portfolio with a number of important customers being added. The growth of the Company's client portfolio continues to strengthen the customer base and widen the spread of business. This performance is an excellent indication of the company's potential to grow at a very respectable rate and is a sound base for future development and growth.

All aspects of the Company's financial performance in 1998 are very encouraging. This is illustrated by improvements in the operating margins and cash flows achieved during the year. Net cash balances at the end of the year on current and deposit accounts stood at £2.41 million (1997: £2.10 million). With sound management of liquid resources there was a significant increase in gross interest received to £169,000, an increase of £73,000 on the previous year.

As a result of the acquisition there were exceptional costs arising amounting to £567,000. These represented various professional fees, compensation for loss of office of certain directors and the crystallisation of incentive schemes, all attributable to the sale of business. The full cost has been charged against earnings for 1998.

The operating profit before charging acquisition-related expenses was £2,711,000 (1997 : £1,652,000) indicating a substantial improvement on the previous year of 64 per cent and giving rise to an increase in operating margin to 20.7 per cent (1997 : 17.4 per cent). Including acquisition-related expenses of £567,000, operating profit totalled £2,144,000 (1997 : £1,652,000) representing a net increase over previous year of 30 per cent.

The profit for the financial year after taxation and after the deduction of acquisition-related expenses was £1,417,000 (1997: £1,152,000), an increase on previous year of 23 per cent. The profit retained in the company and transferred to reserves was also £1,417,000 (1997 : £402,000), there being no distributions or payments of dividends during the year.

The company has prospered through the dedication and hard work of many talented individuals. We would like to convey our appreciation and thanks to all the consultants and employees for their commitment and enthusiasm in taking the company from strength to strength in what has been a terrific year.

Copies of the parent company's financial statements can be obtained from this company's registered office.

Directors and Directors' interests

The names of the Directors currently in office are shown on page 1. During the year Bob Morton served as Chairman of the Board of Directors until his resignation on 30 September 1998. In addition Messrs. Michael Jackson, Roger Lewis and Nick Whitney, served as non-executive directors until their respective resignations, all being effective on 24 August 1998. By de-listing the company's shares from the London Stock Exchange there is no longer a requirement for non-executive directors. Furthermore, John Cassese, Chairman and President of Computer Horizons Corp., the parent company, is also Chairman of CHC International Plc. We welcome John and his colleagues to the Board and would like to convey our thanks and best wishes to Bob, Michael, Richard and Nick for their work and support during their office as directors.

The interests of the directors who are also the directors of the parent undertaking are shown in the financial statements of that company.

The interests of the other directors in the shares of the company and its parent as at 31 December 1998 and 31 December 1997 are included below.

		31 December 1998	31 December 1997
W.A.R Spargo	Computer Horizons Corp. Common Stock of US \$0.10 each	754,800	
	CHC International Plc shares of 1p each	-	5,000,000
C.P. Gouveia	Computer Horizons Corp. Common Stock of US \$0.10 each	-	-
	CHC International Plc shares of 1p each	-	-

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 1998 was 46.

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.

Although one of the company's strengths is to promote the recruitment of permanent employees, 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.

Year 2000 compliance

Many computer systems which express dates using the last two digits of the year may malfunction due to the date change to the Year 2000. This risk to the business relates not only to computer systems but also to a degree on those of the company's customers and suppliers.

This company can confirm that its internal operational systems are fully compliant. Amongst a relatively small number of suppliers there remains confirmation from some that their business is also fully compliant.

Auditors

KPMG Audit Plc resigned as auditors of the Company during the year. Grant Thornton were appointed auditors on 21 December 1998 to fill a casual vacancy in accordance with section 388 (1) of the Companies Act 1985. A resolution to re-appoint Grant Thornton as auditors will be proposed at the Annual General Meeting.

By Order of the Board
C P Gouveia
Secretary



25 January 1999

CHC International 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 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;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 Company 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 7 to 17.

Report of the auditors to the members of CHC International Plc

We have audited the financial statements on pages 7 to 17 which have been prepared under the accounting policies set out on page 10.

Respective responsibilities of Directors and Auditors

As described on page 5 the Company's Directors are responsible for the preparation of the 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 Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 1998 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Grant Thornton', is written over a horizontal line.

Grant Thornton
Chartered Accountants
Registered Auditors
London

25 January 1999

CHC International Plc

Profit and Loss Account

for the year ended 31 December 1998

	Note	1998		1997	
		£'000	£'000	£'000	£'000
Turnover -continuing operations	2		13,099		9,512
Cost of sales			(7,854)		(5,770)
Gross profit			<u>5,245</u>		<u>3,742</u>
Selling and distribution costs			(401)		(312)
Administrative expenses		(2,133)		(1,778)	
Exceptional costs arising on sale of business		<u>(567)</u>	<u>(2,700)</u>	<u>-</u>	<u>(1,778)</u>
Operating profit - continuing operations			<u>2,144</u>		<u>1,652</u>
Interest receivable and similar income	6		169		96
Interest payable and similar charges	7		(4)		(8)
Profit on ordinary activities before taxation	3		<u>2,309</u>		<u>1,740</u>
Taxation on profit on ordinary activities	8		(892)		(588)
Profit for the financial year			<u>1,417</u>		<u>1,152</u>
No interim dividend was paid (1997 : 2.25p per ordinary share)			-		(281)
No final dividend is proposed (1997 : 3.75p per ordinary share)			-		(469)
Retained profit for the financial year			<u><u>1,417</u></u>		<u><u>402</u></u>
Statement of movement on reserves					
Retained profit brought forward			1,552		1,150
Retained profit for the year			1,417		402
Retained profit carried forward			<u><u>2,969</u></u>		<u><u>1,552</u></u>

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

The notes on pages 10 to 17 form part of these financial statements

CHC International Plc

Balance Sheet

at 31 December 1998

	Note	1998		1997	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	9a		200		196
Fixed asset investment	9b		32		-
Current assets					
Debtors	10	2,829		1,420	
Cash at bank and in hand	11	2,407		2,102	
		5,236		3,522	
Creditors:					
amounts falling due within one year	12	(2,355)		(2,023)	
Net current assets			2,881		1,499
Total assets less current liabilities			3,113		1,695
Creditors:					
amounts falling due after more than one year	13		(2)		(18)
Net assets			3,111		1,677
Capital and Reserves					
Called up share capital	14		125		125
Share premium	14		17		-
Profit and loss account			2,969		1,552
Shareholders' Funds	15		3,111		1,677

These financial statements were approved by the board of directors on 25 January 1999 and signed on its behalf by

W A R Spargo

C P Gouveia

Directors

The notes on pages 10 to 17 form part of these financial statements

CHC International Plc

Cash Flow Statement

For the year ended 31 December 1998

	Note	1998 £'000	1997 £'000
Net cash inflow from operating activities	16	1,293	1,909
Returns on investments and servicing of finance			
Interest received		169	96
Interest element of finance lease rental payments		(4)	(8)
Net cash inflow from returns on investments and servicing of finance		165	88
Taxation		(552)	(454)
Investing activities			
Proceeds from disposal of tangible fixed assets		9	9
Purchase of tangible fixed assets		(83)	(43)
Acquisitions & Disposals			
Purchase of investments		(32)	-
Equity dividends paid		(469)	(594)
Net cash inflow before use of liquid resources and financing		331	915
Management of Liquid Resources			
Increase in Term Deposits		(245)	(1,255)
Financing			
Receipts from new allotments of shares		17	-
Capital element of finance lease rental payments		(43)	(59)
(Decrease)/Increase in cash	17	60	(399)
Reconciliation of net cash flow to movement in net funds (Note 17)			
		1998 £'000	1997 £'000
(Decrease)/Increase in cash in the period		60	(399)
Cash outflow from change in liquid resources		245	1,255
Cash outflow from investment in finance leases		43	59
Change in net funds resulting from cash flows		348	915
New finance leases		(36)	(37)
Change in net funds in the period		312	878
Net Funds 1 January		2,059	1,181
Net Funds 31 December		2,371	2,059

CHC International 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 financial statements.

Basis of preparation

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

Fixed assets and depreciation

Depreciation is provided by the Company 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 Company 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 for which such tax is expected to crystallise.

CHC International Plc

Notes (continued)

2 Turnover

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

3 Profit on ordinary activities before taxation

	1998	1997
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration	10	10
Non-audit fees paid to the auditors and its associates	4	6
Depreciation	109	89
Operating lease rentals paid:		
- Other	103	67

The exceptional restructuring costs comprise professional fees and amounts paid in compensation to certain directors and option holders.

CHC International Plc

Notes (continued)

4 Staff numbers and costs

Average number of persons employed by the Company (including directors) during the year were as follows:

	1998	1997
Consultants	126	108
Management, sales and administration	20	18
	<u>146</u>	<u>126</u>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£'000	£'000
Wages and salaries	5,415	4,298
Social security costs	570	434
Pension costs	45	-
	<u>6,030</u>	<u>4,732</u>

5 Remuneration of Directors

	1998	1997
	£'000	£'000
Directors' remuneration	421	317
Compensation for loss of office	39	-
Personal pension scheme	1	-
	<u>461</u>	<u>317</u>

The highest paid director received £240,156 (1997: £153,343). The company contributed to a defined pension scheme of one director during the year (1997 : nil)

6 Interest receivable and similar income

	1998	1997
	£'000	£'000
Bank interest receivable	<u>169</u>	<u>96</u>

7 Interest payable and similar charges

	1998	1997
	£'000	£'000
Finance lease interest	<u>4</u>	<u>8</u>

8 Taxation

	1998	1997
	£'000	£'000
UK Corporation Tax at 38.6% (1997 : 33.9%)	892	589
Adjustment relating to prior year Corporation Tax	-	(1)
	<u>892</u>	<u>588</u>

The effective rate of tax is increased due to the disallowable nature of restructuring costs and other expenditure.

CHC International Plc

Notes (continued)

9a Tangible fixed assets

£'000	Leasehold Improvements	Office Equipment Furniture Fittings	Computer Equipment	Motor Vehicles	Total
Cost					
At 31 December 1997	28	90	66	256	440
Additions	-	50	39	28	117
Disposals	-	-	-	(33)	(33)
At 31 December 1998	28	140	105	251	524
Depreciation					
At 31 December 1997	22	66	38	118	244
Charge for the year	3	17	22	67	109
Disposals	-	-	-	(29)	(29)
At 31 December 1998	25	83	60	156	324
Net book value					
At 31 December 1998	3	57	45	95	200
At 31 December 1997	6	24	28	138	196

The total net book value of motor vehicles of £95,000 (1997 : £138,000) is in respect of assets acquired under finance lease purchase contracts. Depreciation for the year on these assets was £67,000 (1997: £67,000) .

9b Fixed asset investment

The fixed asset investment of £31,500 (1997 : nil) is held at cost and represents an unlisted trade investment. The directors are of the opinion that market value is equivalent to cost.

CHC International Plc

Notes (continued)

10 Debtors	1998	1997
	£'000	£'000
Trade debtors	2,445	1,230
Amounts owed by group undertakings	233	-
Prepayments and accrued income	151	73
ACT recoverable after more than one year	-	117
	<u>2,829</u>	<u>1,420</u>

11 Cash at bank and in hand	1998	1997
	£'000	£'000
Cash	907	847
Short term deposits	1,500	1,255
	<u>2,407</u>	<u>2,102</u>

12 Creditors: amounts falling due within one year	1998	1997
	£'000	£'000
Obligations under finance leases and hire purchase contracts	34	25
Trade creditors	315	232
Other creditors including taxation and social security:		
Corporation Tax	778	557
Other taxes and social security	587	429
Proposed Dividend	-	469
Accruals and deferred income	641	311
	<u>2,355</u>	<u>2,023</u>

CHC International Plc

Notes (continued)

13 Obligations under finance leases and hire purchase contracts

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

	1998	1997
	£'000	£'000
Within one year	34	25
In the second to fifth years	2	18
	<u>36</u>	<u>43</u>

14 Called up share capital and share premium account

	1998	1997
	£'000	£'000
Share capital:		
Authorised	<u>167</u>	<u>167</u>
Allotted, called up and fully paid :		
Ordinary shares of 1p each	<u>125</u>	<u>125</u>

On 9 July 1998 15,000 ordinary 1p shares were allotted for £1.16 each.

	1998	
	£'000	
Share premium:		
At 1 January	-	
Arising on issues during the year	17	
At 31 December	<u>17</u>	

15 Reconciliation of Movement in Shareholders' Funds

	1998	1997
	£'000	£'000
At 1 January	1,677	1,275
Profit for the financial year	1,417	1,152
Share premium	17	-
Dividends paid and proposed	-	(750)
At 31 December	<u>3,111</u>	<u>1,677</u>

CHC International Plc

Notes (continued)

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

	1998	1997
	£'000	£'000
Operating profit	2,144	1,652
Depreciation charge	109	89
Increase in debtors	(1,526)	(13)
Increase in creditors	571	197
Profit on sale of fixed assets	(5)	(16)
Net cash inflow from operating activities	1,293	1,909

17 Analysis of changes in net funds

	Balance at 1.1.98	Cash Flow	Other Non Cash Changes	Balance at 31.12.98
	£'000	£'000	£'000	£'000
Cash at bank and in hand :	847	60	-	907
Term Deposits	1,255	245	-	1,500
Finance leases	(43)	43	(36)	(36)
Net funds	2,059	348	(36)	2,371

CHC International Plc

Notes (continued)

18 Financial commitments

Contracted capital expenditure at the year end amounted to £2,975 (1997 : £10,925)

Annual commitments under operating leases were as follows:

	1998 Land and Buildings £'000	Other £'000	1997 Land and Buildings £'000	Other £'000
Operating leases which expire:				
In the second to fifth years	<u>247</u>	<u>1</u>	<u>87</u>	<u>1</u>

19 Controlling related party

The ultimate parent undertaking and controlling related party of this company is Computer Horizons Corp. incorporated in the United States of America.

The largest and smallest group of undertakings for which group accounts have been drawn up is that headed by Computer Horizons Corp. incorporated in the United States of America.