

CHC International Limited

Directors' Report and Financial Statements

Year ended 31 December 1999

Registered number 2337791

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



CHC International Limited

Directors' Report and Financial Statements

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CHC International Limited

Directors

J J Cassese
Chairman & Chief Executive Officer (USA)

W J Murphy
Chief Finance Officer (USA)

D DiVenuta
Corporate Counsel (USA)

D F Allan
Managing Director (UK)

WAR Spargo
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
99 Hatton Garden
London
EC1N 8DN

CHC International Limited

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activity

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

Business review

Following the acquisition in 1998 CHC International Limited is part of the USA based Computer Horizons Corp. group. Computer Horizons is a public company quoted on the NASDAQ providing information technology strategic services and employing over 3,800 people internationally operating from a network of 50 offices throughout the United States, Canada and the United Kingdom.

The year of 1999 has been a transitional period for both Computer Horizons and the IT Services industry. In recognition of the rapid changes in technology and in response to industry needs the company has undergone various changes to its workforce. To meet the requirements of new technology which is fuelled by the significant developments in the internet environment the company reviewed the skills it employs and engaged a programme of restructuring during the second half of the year. This resulted in restructuring costs associated with severance commitments and investment in engaging new skills and senior management. Many of the new appointments have come from joining forces with our associate company Computer Horizons E-Solutions (Europe) Ltd. with whom we share offices at both our London, Docklands headquarters and at our facilities management centre at Windsor.

The second half of the year was disappointing due mainly to a freeze on client orders as a result of Y2k concerns. As the Y2k millennium work was being completed many of our customers through their IT directors decided to put a hold on new projects and development work until the new year arrived. Notwithstanding that this caused a downturn in turnover, it gave the company the opportunity to review its workforce and commence its restructuring programme.

In line with its parent, the company is dedicated to respond to the critical Information Technology challenges that exist amongst many of the UK's largest organisations. The company will continue to promote itself as an important IT Services provider which has long since been established. In addition, having already set the stage for the new millennium, the company is committed to extending the successes that the group has already achieved in the United States by selling Customer Relationship Management (CRM) and E-Solutions business in the UK and in continental Europe. This broader base approach will enable the company to extend its offerings and widen its business capabilities.

Since becoming a wholly owned subsidiary of Computer Horizons Corp., the company has amended its title from "Plc" to "Limited".

Results

Turnover for the year was £11.29 million compared with £13.10 million for the previous year representing a decrease of 13.8 per cent. At the half-year point revenue was up on the first six months of the previous year by 11.0 percent. The decrease for the full year reflects the freeze on customer orders due to Y2K concerns previously referred to.

As a result of reconstruction and restructuring there were exceptional operational costs amounting to £419,000. The full cost has been charged against earnings for 1999.

The operating profit before charging reconstruction-related expenses was £1,149,000 (1998 : £2,711,000), a decrease of 57.6 per cent on the previous year. This fall in profits was partly due to the fall in revenue and partly due to the investment in the overhead structure designed to deliver a much wider package of services. These include investments in recruitment, sales and marketing, and delivery processes. After charging reconstruction related-expenses of £419,000 and parent company royalty fees for the use of the name, 'Computer Horizons', operating profit totalled £730,000 (1998 : £2,144,000) representing a net decrease over previous year of 66.0 per cent.

The profit for the financial year after taxation and after the deduction of reconstruction related-expenses was £541,000 (1998: £1,417,000), a decrease on previous year of 62.0 per cent. The profit retained in the company and transferred to reserves was also £541,000 (1998 : £1,417,000), there being no distributions or payments of dividends during the year.

The company is extremely well supported by the dedication and hard work of many talented individuals. We would like to convey our appreciation and thanks to all the consultants and support staff for their commitment and enthusiasm in maintaining the company's strength in a year that has seen significant changes in the industry. The company intends to continue strengthening its base to accommodate the exciting challenges and opportunities of the new millennium.

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. Towards the end of the year Tony Spargo retired from his daily duties on the board. Tony founded the company in 1989 and we thank him for his tremendous work and support during his period of office.

On 21 December 1999 the main board appointed Dennis Allan as Managing Director. Dennis was previously managing director of our sister company, Computer Horizons E-Solutions (Europe) Ltd.

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

The directors' interests in the shares of the company and its parent, as at 31 December 1999 and 31 December 1998 are included below.

	31 December 1999	31 December 1998
W.A.R Spargo		
Computer Horizons Corp.		
Common Stock of US \$0.10 each	300,000	754,800

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.

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.

Year 2000 compliance

The company reviewed its computer systems for the impact of the Year 2000 date change, prepared an action plan to address the issue and carried out all necessary measures. All systems have continued to operate properly over the Year 2000 date change and through any roll-over procedures that occurred at a later date.

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. As all businesses are dependent on the compliance of their major customers, suppliers and other trading partners, any impact that has occurred on their systems will affect the company's business to a greater or lesser extent.

Auditors

Grant Thornton have expressed their willingness to continue in office and a resolution, under Section 385 of the Companies Act 1985, for their re-appointment as auditors, will be proposed at the Annual General Meeting.



By Order of the Board
C P Gouveia
Secretary

3 February 2000

CHC International Limited

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 Limited

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 1999 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

3 February 2000

CHC International Limited

Profit and Loss Account for the year ended 31 December 1999

	Note	1999		1998	
		£'000	£'000	£'000	£'000
Turnover -continuing operations	2		11,291		13,099
Cost of sales			(7,053)		(7,854)
Gross profit			<u>4,238</u>		<u>5,245</u>
Selling and distribution costs			(378)		(401)
Administrative expenses		(2,711)		(2,133)	
Exceptional costs arising on reconstruction of the business		<u>(419)</u>	<u>(3,130)</u>	<u>(567)</u>	<u>(2700)</u>
Operating profit - continuing operations			<u>730</u>		<u>2,144</u>
Interest receivable and similar income	6		103		169
Interest payable and similar charges	7		(7)		(4)
Profit on ordinary activities before taxation	3		<u>826</u>		<u>2,309</u>
Taxation on profit on ordinary activities	8		(285)		(892)
Profit for the financial year			<u>541</u>		<u>1,417</u>
No dividends were paid or proposed in the year			-		-
Retained profit for the financial year			<u>541</u>		<u>1,417</u>
Statement of movement on reserves					
Retained profit brought forward			2,969		1,552
Retained profit for the year			541		1,417
Retained profit carried forward			<u>3,510</u>		<u>2,969</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 Limited

Balance Sheet

at 31 December 1999

		1999		1998
		£'000	£'000	£'000
	Note			
Fixed assets				
Tangible assets	9	280		200
Fixed asset investment	10	32		32
Current assets				
Debtors	11	2,906		2,829
Cash at bank and in hand	12	1,698		2,407
		<u>4,604</u>		<u>5,236</u>
Creditors:				
amounts falling due within one year	13	(1,236)		(2,355)
Net current assets		<u>3,368</u>		<u>2,881</u>
Total assets less current liabilities		<u>3,680</u>		<u>3,113</u>
Creditors:				
amounts falling due after more than one year	14	(28)		(2)
Net assets		<u><u>3,652</u></u>		<u><u>3,111</u></u>
Capital and Reserves				
Called up share capital	15	125		125
Share premium		17		17
Profit and loss account		3,510		2,969
Shareholders' Funds	16	<u><u>3,652</u></u>		<u><u>3,111</u></u>

These financial statements were approved by the board of directors on 3 February 2000 and signed on its behalf by

W J Murphy 
C P Gouveia 

Directors

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

CHC International Limited

Cash Flow Statement

For the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
Net cash inflow from operating activities	17	484	1,293
Returns on investments and servicing of finance			
Interest received		103	169
Interest element of finance lease rental payments		(7)	(4)
Net cash inflow from returns on investments and servicing of finance		96	165
Taxation		(1,149)	(552)
Investing activities			
Proceeds from disposal of tangible fixed assets		38	9
Purchase of tangible fixed assets		(99)	(83)
Acquisitions & Disposals			
Purchase of investments		0	(32)
Equity dividends paid		0	(469)
Net cash inflow before use of liquid resources and financing		(630)	331
Management of Liquid Resources			
Decrease/(Increase) in Term Deposits		1,493	(245)
Financing			
Receipts from new allotments of shares		0	17
Capital element of finance lease rental payments		(79)	(43)
Increase in cash	18	<u>784</u>	<u>60</u>
Reconciliation of net cash flow to movement in net funds (Note 18)			
		1999 £'000	1998 £'000
Increase in cash in the period		784	60
Cash outflow from change in liquid resources		(1,493)	245
Cash outflow from investment in finance leases		79	43
Change in net funds resulting from cash flows		<u>(630)</u>	<u>348</u>
New finance leases		(124)	(36)
Change in net funds in the period		<u>(754)</u>	<u>312</u>
Net Funds 1 January		2,371	2,059
Net Funds 31 December		<u>1,617</u>	<u>2,371</u>

CHC International Limited

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.

Contributions to pension funds

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

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 Limited

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

	1999	1998
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration	11	10
Non-audit fees paid to the auditors and its associates	8	4
Depreciation	120	109
Operating lease rentals paid:		
- Other	246	103

The exceptional restructuring costs were associated with severance commitments and investment in engaging new skills and senior management.

CHC International Limited

Notes (continued)

4 Staff numbers and costs

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

	1999	1998
Consultants	116	126
Management, sales and administration	16	20
	<u>132</u>	<u>146</u>

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£'000	£'000
Wages and salaries	5,455	5,415
Social security costs	592	570
Pension costs	132	45
	<u>6,179</u>	<u>6,030</u>

5 Remuneration of Directors

	1999	1998
	£'000	£'000
Directors' remuneration	362	421
Compensation for loss of office	0	39
Personal pension scheme	5	1
	<u>367</u>	<u>461</u>

The highest paid director received £283,599 (1998: £240,156). The company contributed to a defined pension scheme of one director (1998 : one) during the year.

6 Interest receivable and similar income

	1999	1998
	£'000	£'000
Bank interest receivable	<u>103</u>	<u>169</u>

7 Interest payable and similar charges

	1999	1998
	£'000	£'000
Finance lease interest	<u>7</u>	<u>4</u>

8 Taxation

	1999	1998
	£'000	£'000
UK Corporation Tax at 34.5% (1998 : 38.6%)	285	892
Adjustment relating to prior year Corporation Tax	-	-
	<u>285</u>	<u>892</u>

CHC International Limited

Notes (continued)

9 Tangible fixed assets

£'000	Leasehold Improvements	Office Equipment Furniture Fittings	Computer Equipment	Motor Vehicles	Total
Cost					
At 31 December 1998	28	140	105	251	524
Additions	-	106	33	84	223
Disposals	-	-	-	(179)	(179)
At 31 December 1999	28	246	138	156	568
Depreciation					
At 31 December 1998	25	83	60	156	324
Charge for the year	3	32	32	53	120
Disposals	-	-	-	(156)	(156)
At 31 December 1999	28	115	92	53	288
Net book value					
At 31 December 1999	0	131	46	103	280
At 31 December 1998	3	57	45	95	200

The total net book value of motor vehicles of £102,000 (1998 : £95,000) is in respect of assets acquired under finance lease purchase contracts. Depreciation for the year on these assets was £53,000 (1998: £67,000) .

10 Fixed asset investment

The fixed asset investment of £31,500 (1998 : £31,500) 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 Limited

Notes (continued)

11 Debtors	1999	1998
	£'000	£'000
Trade debtors	1,006	2,445
Amounts owed by group undertakings	1,351	233
Prepayments and accrued income	549	151
	<u>2,906</u>	<u>2,829</u>

12 Cash at bank and in hand	1999	1998
	£'000	£'000
Cash	1,691	907
Short term deposits	7	1,500
	<u>1,698</u>	<u>2,407</u>

13 Creditors: amounts falling due within one year	1999	1998
	£'000	£'000
Obligations under finance leases and hire purchase contracts	53	34
Trade creditors	104	315
Other creditors including taxation and social security:		
Corporation Tax	(85)	778
Other taxes and social security	391	587
Amounts owed to group undertakings	181	-
Accruals and deferred income	592	641
	<u>1,236</u>	<u>2,355</u>

CHC International Limited

Notes (continued)

14 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:

	1999	1998
	£'000	£'000
Within one year	53	34
In the second to fifth years	28	2
	<u>81</u>	<u>36</u>

15 Called up share capital and share premium account

	1999	1998
	£'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>

16 Reconciliation of Movement in Shareholders' Funds

	1999	1998
	£'000	£'000
At 1 January	3,111	1,677
Profit for the financial year	541	1,417
Share premium	-	17
Dividends paid and proposed	-	-
At 31 December	<u>3,652</u>	<u>3,111</u>

CHC International Limited

Notes (continued)

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

	1999	1998
	£'000	£'000
Operating profit	730	2,144
Depreciation charge	120	109
Increase in debtors	(77)	(1,526)
(Decrease)/Increase in creditors	(274)	571
Profit on sale of fixed assets	(15)	(5)
Net cash inflow from operating activities	484	1,293

18 Analysis of changes in net funds

	Balance at 1.1.99	Cash Flow	Other Non Cash Changes	Balance at 31.12.99
	£'000	£'000	£'000	£'000
Cash at bank and in hand :	907	784	-	1,691
Term Deposits	1,500	(1,493)	-	7
Finance leases	(36)	79	(124)	(81)
Net funds	2,371	(630)	(124)	1,617

CHC International Limited

Notes (continued)

19 Financial commitments

Contracted capital expenditure at the year end amounted to £29,230 (1998 : £2,975)

Annual commitments under operating leases were as follows:

	1999		1998	
	Land and	Other	Land and	Other
	Buildings		Buildings	
	£'000	£'000	£'000	£'000
Operating leases which expire:				
In the second to fifth years	<u>290</u>	<u>1</u>	<u>247</u>	<u>1</u>

20 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.