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SAGESOF LIMITED
(a wholly-owned subsidiary of
The Sage Group plc)

DIRECTORS' REPORT AND ACCOUNTS

30 September 1989



SAGESOFT LIMITED

DIRECTORS' REPORT

The directors have pleasure in presenting their report and accounts for the year ended 30 September 1989.

RESULTS AND DIVIDENDS

The trading results for the year and dividends proposed are as set out on page 4.

ACTIVITY

The company's principal activity during the year was the development and publication of the business software for personal computers and the sale of computer stationery and supplies.

REVIEW OF BUSINESS

The company achieved profit on ordinary activities of £3,313,431 on a turnover of £8,253,959.

The company has continued to enhance its existing software products and in September 1989 launched the Sterling Accounts range to replace the successful Businesswise Accounts range. Since the launch the sales of Sterling Accounts have been very encouraging.

Following the policy of product diversification, the company has continued to enjoy growing sales from both stationery and supplies and maintenance income. The Directors foresee considerable growth in both these areas during 1989/90.

The launch of MainLan (a Local Area Network product) in September 1988 has proved to be very successful. The product has established the company as a leading supplier in the network market. This product contributed £1.6m to turnover in 1989 and the Directors expect that income from network products in the forthcoming year will continue to provide significant contribution to turnover.

The Directors will continue their policy of diversification and will focus in 1990 on export opportunities for MainLan.

DIRECTORS AND THEIR INTERESTS

The directors at 30 September 1989 and their interests in the ordinary share capital of the company were as follows:

	Number of ordinary shares held at <u>30 September 1989</u>	Number of ordinary shares held at 30 September 1988 <u>or date of appointment</u>
AD Goldman (Chairman)	-	505
TP Maxfield	-	120
PA Walker	-	-
AWG Wylie	-	505
ADV Crook	-	-
MEW Jackson	-	18

SAGESOFT LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS (continued)

Directors' interests in the shares of The Sage Group plc are set out in the directors' report of that company.

Mr AD Goldman's holding at 30 September 1988 included 30 shares held by him as trustee in a non-beneficial capacity.

Mr ADV Crook represents an institutional investor who held 30% of the ordinary shares at 30 September 1988.

SHARE CAPITAL

Movements in share capital are set out in note 14 to the accounts.

FIXED ASSETS

Movements in fixed assets are set out in note 8 to the accounts.

RESEARCH AND DEVELOPMENT

The company continues to develop business software applications for personal computers.

AUDITORS

A resolution to re-appoint Price Waterhouse as auditors will be put to the members at the Annual General Meeting.

By order of the board

PW Egerton
Secretary

27 November 1989



We have audited the financial statements on pages 4 to 13 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30 September 1989 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

27 November 1989

SAGESOFT LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED
30 SEPTEMBER 1989

	<u>1989</u>	<u>1988</u>
TURNOVER (Note 2)	8,253,959	5,235,009
Cost of sales	(1,622,820)	(1,236,730)
GROSS PROFIT	6,631,139	3,998,279
Selling and administrative expenses	(3,369,221)	(2,461,180)
OPERATING PROFIT	3,261,918	1,537,099
Interest receivable	52,111	85,684
Interest payable (Note 5)	(598)	(4,376)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	3,313,431	1,618,407
Tax on profit on ordinary activities (Note 6)	(872,152)	(581,306)
PROFIT FOR THE FINANCIAL YEAR	2,441,279	1,037,101
Dividends (Note 7)	(3,326,929)	(416,410)
AMOUNT TRANSFERRED (FROM)/TO RESERVES (Note 15)	£(885,650)	£620,691

SAGESOFT LIMITED

BALANCE SHEET AS AT 30 SEPTEMBER 1989

	<u>1989</u>	<u>1988</u>
FIXED ASSETS		
Tangible assets (Note 8)	532,646	414,279
CURRENT ASSETS		
Stocks (Note 10)	277,348	173,039
Debtors (Note 11)	5,969,287	1,399,616
Cash at bank and in hand	36,336	1,105,697
	<u>6,282,971</u>	<u>2,678,352</u>
CREDITORS: amounts falling due within one year (Note 12)	<u>(5,919,553)</u>	<u>(1,676,680)</u>
NET CURRENT ASSETS	363,418	1,001,672
TOTAL ASSETS LESS CURRENT LIABILITIES	896,064	1,415,951
PROVISIONS FOR LIABILITIES AND CHARGES (Note 13)	-	(18,500)
DEFERRED MAINTENANCE INCOME	(594,064)	(309,801)
	<u>£202,000</u>	<u>£1,087,650</u>
CAPITAL AND RESERVES		
Called up share capital (Note 14)	202,000	2,240
Share premium	-	199,760
Profit and loss account (Note 15)	<u>-</u>	<u>885,650</u>
	<u>£202,000</u>	<u>£1,087,650</u>

The financial statements on pages 4 to 13 were approved by the board of directors on 27 November 1989 and are signed on their behalf by:

AD Goldman) Directors
PA Walker)

AD Goldman
PA Walker

SAGESOFT LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 30 SEPTEMBER 1989

FUNDS GENERATED FROM TRADING

	<u>1989</u>	<u>1988</u>
Operating profit on ordinary activities before taxation	3,261,918	1,537,099
Adjustment for items not involving the movement of funds:		
Depreciation	117,824	93,726
Loss/(profit) on disposal of tangible fixed assets	<u>14,880</u>	<u>(970)</u>
	132,704	92,756
Increase in provision for deferred maintenance income	<u>384,261</u>	<u>141,655</u>
	3,778,883	1,771,510
(INCREASE)/DECREASE IN WORKING CAPITAL (Note 17)	(4,368,687)	(473,651)
CHANGES IN FIXED ASSETS		
Additions to tangible fixed assets	(279,104)	(265,910)
Proceeds from disposal of tangible fixed assets	<u>28,034</u>	<u>17,570</u>
	(251,070)	(248,340)
	(840,874)	1,049,519
CASH FLOW FROM OPERATIONS		
Interest (net)	51,513	81,308
Tax paid	(280,000)	(280,000)
Dividends paid	<u>-</u>	<u>(473,410)</u>
	(228,487)	(672,102)
(DECREASE)/INCREASE IN NET LIQUID FUNDS	<u>£(1,069,361)</u>	<u>£377,417</u>

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1989

1 ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are prepared under the historical cost convention.

(b) Turnover

Turnover represents invoiced sales to third parties after deducting credit notes, allowances, trading discounts and Value Added Tax and is adjusted to include maintenance income on a straight line basis over the life of each maintenance agreement.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation on tangible fixed assets is provided for as follows:

Freehold land and buildings	- 2% per annum straight line
Plant and equipment	- 33 1/3% per annum on reducing balance
Motor vehicles	- 25% per annum on reducing balance
Fixtures and fittings	- 15% per annum on reducing balance

(d) Development costs

All costs associated with the development of software are written off as incurred.

(e) Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value.

(f) Leasing

Where plant and equipment is acquired by leasing arrangements which give rights approximating to ownership ('finance leases') the amount representing the purchase price of such assets is included in tangible fixed assets and the related obligations are included in creditors. All other leases are 'operating leases' and the annual rentals are charged to the profit and loss account on a straight-line basis over the lease term.

(g) Deferred taxation

Provision is made for deferred taxation to the extent that there is a reasonable probability that the liability will arise in the foreseeable future.

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1989 (continued)

2 SEGMENT INFORMATION

The geographical analysis of turnover by market is as follows:

	<u>1989</u>	<u>1988</u>
United Kingdom	7,945,306	5,160,673
Rest of the World	308,653	74,336
	<u>£8,253,959</u>	<u>£5,235,009</u>

The analysis of turnover and operating profit by type of business is as follows:

	<u>Turnover</u>		<u>Operating profit</u>	
	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
Software and related activities	6,849,686	4,393,246	2,758,284	1,346,686
Computer stationery and supplies	1,404,273	841,763	503,634	190,411
	<u>£8,253,959</u>	<u>£5,235,009</u>	<u>£3,261,918</u>	<u>£1,537,099</u>

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging/(crediting):

	<u>1989</u>	<u>1988</u>
	<u>£</u>	<u>£</u>
Staff costs (excluding directors' emoluments):		
Wages and salaries	854,506	620,335
Social security costs	71,131	61,670
Other pension costs	9,582	-
Non-recurring grants	(162,000)	(10,000)
Directors' emoluments	289,147	206,062
Depreciation	117,824	93,726
Operating lease rentals	22,646	11,331
(Profit)/loss on sale of tangible assets	14,880	(970)
Auditors' remuneration	10,000	9,000
	<u>£</u>	<u>£</u>

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1989 (continued)

4 DIRECTORS' EMOLUMENTS

The emoluments of the Chairman who was also the highest paid director were £95,066 (1988 - £67,313).

The number of other directors whose emoluments (excluding pension contributions) were within the following bands was as follows:

	<u>1989</u>	<u>1988</u>
£0 - £5,000	2	2
£30,001 - £35,000	-	1
£40,001 - £45,000	-	1
£50,001 - £55,000	1	-
£60,001 - £65,000	-	1
£65,001 - £70,000	1	-
£70,001 - £75,000	1	-
	<u> </u>	<u> </u>

5 INTEREST PAYABLE

	<u>1989</u>	<u>1988</u>
Interest payable on borrowings repayable within five years	-	1,379
Finance charges on hire purchase agreements	598	2,997
	<u> </u>	<u> </u>
	£598	£4,376
	<u> </u>	<u> </u>

6 TAXATION

	<u>1989</u>	<u>1988</u>
Corporation tax on profits for the year at 35% (1988 - 35%)	981,160	592,343
Prior year	(90,508)	(5,037)
Transfer from deferred tax	(18,500)	(6,000)
	<u> </u>	<u> </u>
	£872,152	£581,306
	<u> </u>	<u> </u>

The corporation tax charge on profits for the year reflects the surrender of group tax losses of £450,000 for which payment has been made.

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1989 (continued)

7 DIVIDENDS

	<u>1989</u>	<u>1988</u>
<u>Paid</u>		
Ordinary shares	-	234,000
9% Convertible redeemable preference shares	-	5,410
<u>Proposed</u>		
Ordinary shares	3,326,929	177,000
	<u>£3,326,929</u>	<u>£416,410</u>

8 TANGIBLE FIXED ASSETS

	<u>Freehold land and buildings</u>	<u>Plant and equipment</u>	<u>Fixtures and fittings</u>	<u>Motor vehicles</u>	<u>Total</u>
<u>Cost</u>					
At 1 October 1988	92,141	276,179	146,893	86,090	601,303
Additions	-	149,433	25,321	104,350	279,104
Disposals	-	(39,064)	(2,408)	(62,447)	(103,919)
	<u>92,141</u>	<u>386,548</u>	<u>169,806</u>	<u>127,993</u>	<u>776,488</u>
<u>Depreciation</u>					
At 1 October 1988	1,830	117,000	40,424	27,770	187,024
Provision for the year	1,843	76,917	18,236	20,768	117,824
Disposals	-	(31,598)	(2,408)	(27,000)	(61,006)
	<u>3,673</u>	<u>162,379</u>	<u>56,252</u>	<u>21,538</u>	<u>243,842</u>
<u>Net book amount</u>					
At 30 September 1989	£88,468	£224,169	£113,554	£106,455	£532,646
	<u>£88,468</u>	<u>£224,169</u>	<u>£113,554</u>	<u>£106,455</u>	<u>£532,646</u>
At 30 September 1988	£90,311	£159,179	£106,469	£58,320	£414,279
	<u>£90,311</u>	<u>£159,179</u>	<u>£106,469</u>	<u>£58,320</u>	<u>£414,279</u>

Included above are fixed assets purchased under hire purchase agreements with a net book amount of £ nil (1988 - £11,094).

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1989 (continued)

9 INVESTMENT IN SUBSIDIARY

	<u>1989</u>	<u>1988</u>
Shares at cost	-	100
Less: amounts written off	-	(100;
	<u> </u>	<u> </u>
	£-	£-
	<u> </u>	<u> </u>

The company formerly owned the whole of the issued share capital of Sage PC Learning Centres Limited, comprising 100 ordinary shares of £1 each. The company was dormant and registered in England. This company was sold during the year.

10 STOCKS

	<u>1989</u>	<u>1988</u>
Materials	258,621	154,166
Finished goods	18,727	18,873
	<u> </u>	<u> </u>
	£277,348	£173,039
	<u> </u>	<u> </u>

11 DEBTORS

	<u>1989</u>	<u>1988</u>
Trade debtors	1,346,406	981,250
Amounts owing by group companies	4,232,200	-
Other debtors	180,868	83,104
Prepayments	72,813	276,262
Taxation recoverable	137,000	59,000
	<u> </u>	<u> </u>
	£5,969,287	£1,399,616
	<u> </u>	<u> </u>

The taxation recoverable represents Advance Corporation Tax which is recoverable more than one year after the balance sheet date.

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1989 (continued)

12 CREDITORS (amounts falling due within one year)

	<u>1989</u>	<u>1988</u>
Current portion of hire purchase instalments	-	5,730
Trade creditors	689,418	224,355
Corporation tax	1,234,958	624,300
Other taxes and social security costs	254,841	132,691
Accruals	276,407	453,598
Advance corporation tax	137,000	59,000
Proposed dividend	3,326,929	177,000
	<u>£5,919,553</u>	<u>£1,676,680</u>

13 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax at 35% (1988 - 35%):

Full potential deferred tax liability

	<u>1989</u>	<u>1988</u>
Tax deferred by accelerated capital allowances	-	16,000
Other timing differences	-	2,500
	<u>£-</u>	<u>£18,500</u>

14 CALLED UP SHARE CAPITAL

	<u>Authorised</u>		<u>Allotted and fully paid</u>	
	<u>1989</u>	<u>1988</u>	<u>1989</u>	<u>1988</u>
Ordinary shares of £1 each	£202,000	£2,240	£202,000	£2,240

On 10 October 1988 there was a bonus issue of shares of 89.1786 new ordinary shares for every 1 existing ordinary share out of share premium.

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1989 (continued)

15 PROFIT AND LOSS ACCOUNT

	<u>1989</u>
At 1 October 1988	885,650
Loss for the year	<u>(885,650)</u>
At 30 September 1989	<u>£-</u>

16 OPERATING LEASE COMMITMENTS

The annual commitment under non-cancellable operating leases for plant and equipment comprises:

	<u>1989</u>	<u>1988</u>
Expiring between 2 and 5 years	£21,764	£24,734
	<u> </u>	<u> </u>

17 (INCREASE)/DECREASE IN WORKING CAPITAL

(Increase)/decrease in working capital comprises:

	<u>1989</u>	<u>1988</u>
Stocks	(104,309)	(44,272)
Debtors	(4,569,671)	(503,442)
Creditors	<u>305,293</u>	<u>74,063</u>
	<u>£(4,368,687)</u>	<u>£(473,651)</u>

18 CAPITAL COMMITMENTS

The company did not have any capital commitments at 30 September 1989 (1988 - none).

19 CONTINGENT LIABILITIES

The company did not have any contingent liabilities at 30 September 1989 (1988 - none).

20 EMPLOYEES

The average number of employees employed by the company during the period was 96 (1988 - 69). They were all employed in the United Kingdom.

21 ULTIMATE HOLDING COMPANY

On 10 October 1988 the ultimate holding company became The Sage Group plc, a company incorporated in Great Britain.