

Sage (UK) Ltd

Directors' report and accounts

for the year ended 30 September 2003

Registered Number 1045967



Sage (UK) Ltd

Directors' report and accounts

for the year ended 30 September 2003

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Directors' report for the year ended 30 September 2003

The directors present their report and the audited financial statements of the company for the year ended 30 September 2003.

Review of activities

The company's principal activities during the year were the development, distribution and support of branded PC accounting software and related products for medium sized and smaller businesses.

Review of the business and future developments

The Company achieved a profit on ordinary activities before taxation of £63,669,000 (2002: £55,986,000) on a turnover of £146,067,000 (2002: £142,433,000) and the directors intend to continue to develop the Company's business.

Results and dividends

The trading results for the year, dividends proposed and transfers to reserves are set out on page 5.

Directors and their interests

The directors who served during the year were as follows:

PA Walker
AWG Wylie (Resigned 20th May 2003)
P Stobart
KM Geary
AD Schofield
N Hudson
A Grace
D Karlin
L Mullaney
J R Brearley
G May

At 30 September 2003, KM Geary held a beneficial interest in 366,873 ordinary shares of 1p in The Sage Group PLC (2002: 345,562).

At 30 September 2003, JR Brearley had a beneficial interest in 100,000 ordinary shares of 1p in The Sage Group PLC (2002: Nil).

At 30 September 2003, N Hudson had a beneficial interest in 204,556 ordinary shares of 1p in The Sage Group PLC (2002: 154,860).

At 30 September 2003, A Grace had a beneficial interest in 132,396 ordinary shares of 1p in The Sage Group PLC (2002: 69,878).

At 30 September 2003, D Karlin had a beneficial interest in 132,296 ordinary shares of 1p in The Sage Group PLC (2002: 69,878).

At 30 September 2003, L Mullaney had a beneficial interest in 118,656 ordinary shares of 1p in The Sage Group PLC (2002: 37,878)

At 30 September 2003, G May had a beneficial interest in 150,505 ordinary shares of 1p in The Sage Group PLC (2002: Nil)

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At 30 September 2003, A D Schofield had a beneficial interest in 307,336 ordinary shares of 1p in The Sage Group PLC (2002: 311,495)

The remaining directors who held office at 30 September 2003 were also directors of The Sage Group PLC and their interests are shown in the annual report of that company.

Employment policy

The company continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment. The company has continued its policy of employee involvement by making information available to employees on matters of concern to them.

Research and development

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

Creditor payment policy

In accordance with group policy, the company is responsible for agreeing terms and conditions of trade with all suppliers. Payments to suppliers are made promptly in accordance with the terms specified. Creditor days have been calculated at 37 days (2002: 33 days.)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

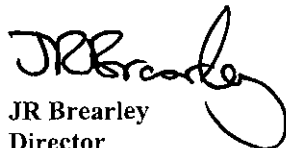
The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 September 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the Annual General Meeting.

On behalf of the Board



JR Brearley
Director

28 July 2004

Independent auditors' report to the members of Sage (UK) Ltd

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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.

Sage (UK) Ltd

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 September 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Newcastle Upon Tyne

28 July 2004

Sage (UK) Ltd

Profit and loss account for the year ended 30 September 2003

	Note	2003	2002
		£'000	£'000
Turnover - continuing operations	1	146,067	142,433
Cost of sales		(10,248)	(9,915)
Gross profit		135,819	132,518
Selling and administration expenses		(72,391)	(76,678)
Operating profit - continuing operations		63,428	55,840
Interest receivable and similar income	4	259	191
Interest payable and similar charges	4	(18)	(45)
Profit on ordinary activities before taxation	2	63,669	55,986
Tax on profit on ordinary activities	5	(19,344)	(9,844)
Profit for the financial year		44,325	46,142
Dividends	6	(44,325)	(38,682)
Retained profit for the financial year	14	-	7,460

There is no difference between the profit on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

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Statement of total recognised gains and losses for the year ended 30 September 2003

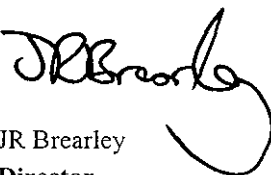
	2003	2002
	£'000	£'000
Profit/(loss) for the financial year	44,325	46,142
Total recognised gains for the year	44,325	46,142
Prior year adjustment - FRS 19	-	(1,396)
Total gains recognised since last Annual Report	44,325	44,746

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Balance sheet as at 30 September 2003

	Note	2003	2002
		£'000	£'000
Fixed assets			
Intangible assets	7	26,903	23,647
Tangible assets	8	25,409	26,465
Investments	9	46,127	42,943
		98,439	93,055
Current assets			
Stocks	10	703	686
Debtors	11	105,387	70,269
Cash at bank and in hand		12,796	3,317
		118,886	74,272
Creditors - Amounts falling due within one year	12	(144,662)	(99,144)
Net current liabilities		(25,776)	(24,872)
Total assets less current liabilities		72,663	68,183
Deferred maintenance income		(37,882)	(33,691)
Provisions for liabilities and charges	13	(1,545)	(1,256)
Net assets		33,236	33,236
Capital and reserves			
Called up equity share capital	14	20,000	20,000
Profit and loss account	14	13,236	13,236
Equity shareholders' funds	14	33,236	33,236

The financial statements on pages 5 to 18 were approved by the board of directors on 28 July 2004 and were signed on its behalf by:


JR Brearley
Director

Sage (UK) Ltd

Accounting policies

Accounting convention

The financial statements have been prepared under the historical-cost convention, the accounting policies set out below and in accordance with applicable accounting standards in the United Kingdom.

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.

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	- Buildings are depreciated over 50 years. Land is not depreciated.
Plant and equipment	- 33% per annum on reducing balance
Motor vehicles	- 25% per annum on reducing balance
Fixtures & fittings	- 15% per annum on reducing balance
Telephone equipment	- 17% per annum straight line

Development costs

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

Stocks and work in progress

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

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable surpluses from which the future reversal of the timing differences can be deducted. Deferred tax balances are not discounted.

Pensions

The company operates a defined contribution pension scheme for certain of its employees. The costs are charged to the profit and loss account as they fall due.

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Goodwill

Goodwill represents the excess of the fair value attributed to investments in business or subsidiary undertakings over the fair value of the underlying net assets at the date of their acquisition. In accordance with FRS 10, for acquisitions made on or after 1 October 1998, goodwill has been capitalised as an intangible asset. Goodwill arising on acquisitions prior to that date was eliminated against reserves in accordance with the accounting standard then in force. If a subsidiary or business is subsequently sold or closed, any goodwill arising on consolidation that was eliminated against reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

The directors have concluded that they should evaluate the life of goodwill on a case by case basis, amortising goodwill in instances where a fixed life is considered appropriate. Goodwill which is not amortised is subject to an annual impairment review. Goodwill on businesses acquired since 1 October 1998 has all been assessed as having an indefinite life. This is because the main intangible assets that the Group has acquired are customer bases, channels of distribution and brands. However none of these intangible assets qualify as a separable net asset under FRS 10, therefore they have not been accounted for separately. Based on past experience, the directors consider that taken together these assets enhance in value over time. This results from better customer and channel management and brand development, which enhances returns on acquired businesses. The carrying value of this goodwill will continue to be reviewed annually for impairment and adjusted to the recoverable amount if required.

The financial statements depart from the specific requirements of the companies legislation to amortise goodwill over a finite period in order to give a true and fair view. The directors consider this to be necessary for the reasons given above. Because of the indefinite life of these intangible assets, it is not possible to quantify the impact of this departure.

The need for any goodwill impairment write-down is assessed by comparison of the carrying value of the asset against the higher of net realisable value or value in use. The value in use is determined from estimated discounted future cash flows. Discount rates used are based on the circumstances of the individual businesses.

Investments

Fixed asset investments are stated at cost less provision for any permanent diminution in value.

Cashflow

The company is exempt under the provisions of Financial Reporting Standard 1 (revised 1996) from the requirement to prepare a cash flow statement, being a wholly owned subsidiary of a parent undertaking whose financial statements are publicly available.

Leasing

Where plant and equipment is acquired by finance leasing arrangements which give rights approximating to ownership 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 classified as operating leases and the annual rentals are charged to the profit and loss account as they fall due.

Foreign currency translation

Foreign currency assets and liabilities are translated into sterling at rates ruling at the balance sheet date. All profits and losses arising on exchange differences are reflected in the profit and loss account.

**Notes to the financial statements
for the year ended 30 September 2003**

1 Segment information

The geographical analysis of turnover by market is as follows:

	2003 £'000	2002 £'000
United Kingdom	145,323	142,252
Europe	72	40
Rest of the world	672	141
	146,067	142,433

2 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Staff costs (including directors' emoluments):		
Wages and salaries	37,350	38,202
Social security costs	3,974	3,929
Other pension costs	1,881	1,908
Staff costs	43,205	44,039
Research and development (including staff costs)	9,574	6,805
Depreciation - owned assets	2,590	2,800
Operating lease rentals - plant and machinery	223	80
- other	3,145	1,143
Loss/(profit) on sale of tangible fixed assets	112	115
Auditors' remuneration:		
Audit services	115	60
Non-audit services	56	73

The average number of people employed by the Company in the United Kingdom during the year was 1,480 (2002: 1,389).

3 Emoluments of directors

Aggregate executive emoluments, totalled £2,291,225 (2002: £2,631,163) including pension contributions of £216,253 (2002: £184,352).

At 30 September 2003 there were 6 (2002: 6) directors with benefits accruing under the company money purchase scheme.

The emoluments of the highest paid director including pension contributions of £39,769 (2002: £39,769) was £679,769 (2002: £693,849).

4 Interest receivable and payable

	2003 £'000	2002 £'000
Interest receivable and similar income:		
Bank interest receivable	259	153
Interest on loans to group undertakings/royalties	-	38
	259	191

	2003 £'000	2002 £'000
Interest payable and similar charges:		
Bank interest payable	18	45

5 Taxation on profit on ordinary activities

(a) Analysis of tax charge in the period

	2003	2002
	£'000	£'000
Current tax		
UK corporation tax at 30% (2002: 30%)		
- current year	19,099	11,302
- prior year	(44)	(1,318)
Current tax charge for the year	19,055	9,984
Deferred Tax		
- origination and reversal of timing differences	289	(140)
Total tax for the year	19,344	9,844

(b) Factors affecting tax charge for the year

The tax for the period is lower (2002: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003	2002
	£'000	£'000
Profit on ordinary activities before taxation	63,669	55,986
Corporation tax thereon at 30%	19,101	16,796
Effects of:		
Expenses not allowable for tax purposes	214	208
Accelerated capital allowances/other timing differences	(216)	(155)
Group relief not paid	-	(5,547)
Adjustments to tax charge in respect of previous period	(44)	(1,318)
Current tax charge for the year	19,055	9,984

(c) Factors that may affect future tax charges

There are no matters which are expected to affect future tax charges materially.

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6 Dividends

	2003	2002
	£'000	£'000
Proposed £2.22 (2002: £1.93) per £1 ordinary share	44,325	38,682

7 Intangible fixed assets

	Goodwill £'000
At 1 October 2002	23,647
Additions in the year	3,256
At 30 September 2003	26,903

The additions in the year relates to the divisonalisation of the Adaptus Software Services Limited investment from Sage Enterprises Solutions Limited to Sage (UK) Limited.

8 Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 October 2002	14,468	16,370	5,765	2,133	38,736
Additions	-	1,467	41	341	1,849
Disposals	(2)	(10)	-	(659)	(671)
At 30 September 2003	14,466	17,827	5,806	1,815	39,914
Depreciation					
At 1 October 2002	777	7,857	2,747	890	12,271
Charge for the year	287	1,534	459	310	2,590
Disposals	-	(5)	-	(351)	(356)
At 30 September 2003	1,064	9,386	3,206	849	14,505
Net book amount					
At 30 September 2003	13,402	8,441	2,600	966	25,409
At 30 September 2002	13,691	8,513	3,018	1,243	26,465

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9 Fixed asset investments

	Investment in subsidiary undertakings
	£'000
Cost	
At 30 September 2002	42,943
Additions	3,184
At 30 September 2003	46,127

The main additions in the year relate to the purchase of ATW Computer Software Services Limited and Promis Software Limited. An analysis of the company's principal subsidiaries is shown below:

Company	Activity
Apex Software International Limited *	Holding company
Apex Software System Limited *	Dormant company
Apex Software Systems (UK) Limited *	Dormant company
ATW Computer Software Services Limited	Sales of computer software
Computer Resources Limited *	Holding company
Computer Resources (Supplies) Limited *	Dormant company
Computer Resources (Software) Limited *	Dormant company
Computer Resources (Research) Limited *	Dormant company
Hartley International Limited	Holding company
Hartley Computer UK Ltd	Dormant company
Promis Software Limited	Sale of computer software
Quantec Holdings Limited	Holding company
CSM Limited (formerly Quantec Systems & Software Limited)	Dormant company
Taxsoft Limited	Dormant company
Tonwomp	Holding company
Sage Hibernia Limited *	Sales of computer software
Sage Hibernia Investments No 1 Limited	Holding company
Sage Hibernia Investments No 2 Limited	Holding company
Multisoft Financial Systems Limited	Dormant company
TAS Software PLC	Dormant company
TAS Software Limited *	Dormant company
TAS Software (Pty) Limited *	Sales of computer software

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9 Fixed asset investments (continued)

Shares in companies marked * are owned by Tonwomp, an unlimited company registered in Ireland. 99% of the issued share capital of Tonwomp is owned by Sage Hibernia Investments No 1 Limited, a 100% subsidiary of Sage (UK) Ltd. The remaining 1% of the issued share capital of Tonwomp is owned by Sage Hibernia Investments No 2 Limited, a 100% subsidiary of Sage (UK) Ltd.

All companies are owned 100% and are registered and operate in England and Wales, with the exception of Tonwomp, Apex Software International Limited, Apex Software Systems Limited, Computer Resources Limited, Computer Resources (Supplies) Limited, Computer Resources (Software) Limited, Computer Resources (Research) Limited, Sage Hibernia Limited and TAS Software Limited, which are incorporated in Ireland. TAS Software (Pty) Limited is incorporated in South Africa.

In the opinion of the directors, the value of the investments is not less than their book value.

10 Stocks

	2003	2002
	£'000	£'000
Finished goods and goods for resale	703	686

11 Debtors

	2003	2002
	£'000	£'000
Trade debtors	36,361	39,246
Amounts owed by group undertakings	66,341	28,433
Other debtors	404	421
Prepayments and accrued income	2,281	2,169
	105,387	70,269

12 Creditors - Amounts falling due within one year

	2003	2002
	£'000	£'000
Trade creditors	3,455	3,308
Amounts due to group undertakings	126,006	82,037
Other taxes and social security	4,590	6,045
Other creditors	398	243
Accruals and deferred income	3,624	4,764
Corporation tax	6,589	2,747
	144,662	99,144

13 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	Deferred tax provision £'000
At 1 October 2002	1,256
Charge to the profit and loss account in the year	289
At 30 September 2003	1,545

	2003	2002
	£'000	£'000
Provision for deferred taxation		
Tax deferred in respect of accelerated capital allowances	1,642	1,440
Short term timing differences	(97)	(184)
	1,545	1,256

14 Called up equity share capital and reconciliation of movement in equity shareholders' funds

	Profit and loss account £'000	Called up equity share capital £'000	Equity shareholders funds £'000
At 30 September 2002	13,236	20,000	33,236
Profit for the financial year	44,325	-	44,325
Dividends	(44,325)		(44,325)
At 30 September 2003	13,236	20,000	33,236

Equity share capital comprises 20,000,000 authorised, allotted and fully paid ordinary shares of £1 each (2002: 20,000,000).

15 Operating lease commitments

The annual commitment under non-cancellable operating leases for land and buildings comprises:

	2003 £'000	2002 £'000
Leases expiring within 1 year	256	65
In respect of leases expiring within 1 to 2 years	-	308
In respect of leases expiring within 2 to 5 years	639	12
In respect of leases expiring in greater than 5 years	3,040	2,860
	3,935	3,245

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

	2003 £'000	2002 £'000
Leases expiring within 1 year	96	153
In respect of leases expiring within 1 to 2 years	-	114

16 Cash flow statement

The company has not presented its own cash flow statement as permitted by FRS1. Details of the cash flows of the group may be found in the accounts of The Sage Group PLC which are publicly available.

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17 Consolidation

The company is exempt under section 228 of the Companies Act 1985, from preparing consolidated accounts.

18 Capital commitments

The company had no contracted capital commitments at 30 September 2003 (2002: £Nil).

19 Acquisitions

The company acquired Promis Software Limited and ATW Computer Software Services Limited on 20 March 2003 and 20 September 2003 respectively, for a total cash consideration of £1,977,000. The total book value of assets acquired was £294,000, which was reduced by £30,000 in order to present the net assets of those companies at fair values in accordance with the group's accounting policies. The purchase of these two companies generated total goodwill of £1,713,000.

20 Ultimate parent undertaking

The immediate and ultimate parent undertaking and ultimate controlling party is The Sage Group PLC a company registered in England. Copies of the Group accounts can be obtained from the registered office at North Park, Newcastle upon Tyne, NE13 9AA.

21 Related party transaction

The company has taken advantage of the exemptions available under Financial Reporting Standard No 8, and has not disclosed transactions with other companies that are consolidated into the financial statements of The Sage Group PLC.