

SAGESOFT LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 SEPTEMBER 1997

(Registered Number : 1045967)



SAGESOFT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 1997

The Directors have pleasure in presenting their report and accounts for the year ended 30 September 1997.

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

The Company achieved a profit on ordinary activities before taxation of £24,026,000 on a turnover of £44,283,000 and the directors intend to continue to develop the company's business.

RESULTS FOR THE YEAR

The trading results for the year, dividends proposed and transfers to reserves are set out on page 4.

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year were as follows:

PA Walker
AWG Wylie
MEW Jackson
G Parker
P Stobart
R Fisher (Appointed 13 October 1997)
M Searles (Appointed 11 August 1997)
K Geary (Appointed 19 January 1998)
A Schofield (Appointed 1 October 1997)
G Letts (Appointed 9 February 1998)
AJ Hughes (Resigned 1 October 1997)
AD Goldman (Resigned 30 September 1997)
TP Maxfield (Resigned 20 September 1997)
D Errington (Resigned 9 February 1998)

The interests of Directors holding office at 30 September 1997 in the shares of The Sage Group PLC are set out in the Directors' Report of that Company.

As at 30 September 1997 G Parker held no interest in the shares of The Sage Group plc (30 September 1996 25,000 options over ordinary shares of 1p each in The Sage Group PLC at a price of 98p and a beneficial interest in 1,580 shares.)

FIXED ASSETS

Movements in fixed assets are set out in Note 7 to the accounts.

SAGESOFT LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 1997 (continued)

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.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors confirm that appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made, in the preparation of the financial statements for the year ended 30 September 1997. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.


The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors 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.

AUDITORS

Price Waterhouse have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board.


RCE Wyndham
Secretary

30 June 1998

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF SAGESOFT LIMITED

We have audited the financial statements on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2 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 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 the company's affairs as at 30 September 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

30 June 1998

SAGESOFT LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 1997

	<u>1997</u> £'000	<u>1996</u> £'000
TURNOVER (Note 2)	44,283	35,903
Cost of sales	(4,112)	(3,768)
	<hr/>	<hr/>
GROSS PROFIT	40,171	32,135
Selling and administrative expenses	(16,421)	(13,112)
	<hr/>	<hr/>
OPERATING PROFIT	23,750	19,023
Interest receivable	278	243
Interest payable (Note 5)	(2)	(5)
	<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 3)	24,026	19,261
Taxation (Note 6)	(7,929)	(6,220)
	<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR (Note 10)	16,097	13,041
Proposed dividend (Note 10)	(16,097)	(12,921)
	<hr/>	<hr/>
AMOUNT TRANSFERRED TO RESERVES	-	120
	<hr/>	<hr/>

All results refer entirely to continuing operations.

RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses, as defined in Financial Reporting Standard 3 ("FRS3"), Reporting Financial Performance, which are not included in the above profit and loss account.

HISTORICAL COST PROFITS AND LOSSES

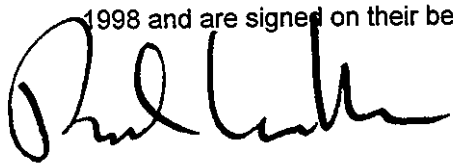
There is no material difference between the reported profits and the historical cost profits for 1997 and 1996.

SAGESOFT LIMITED

BALANCE SHEET AS AT 30 SEPTEMBER 1997

	<u>1997</u>	<u>1996</u>
	£'000	£'000
FIXED ASSETS		
Tangible assets (Note 7)	13,450	13,105
CURRENT ASSETS		
Amounts due from group undertakings	32,958	13,045
CREDITORS: amounts falling due within one year (Note 8)	<u>(37,090)</u>	<u>(19,084)</u>
NET CURRENT LIABILITIES	(4,132)	(6,039)
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>9,318</u>	<u>7,066</u>
DEFERRED MAINTENANCE INCOME	<u>(8,949)</u>	<u>(6,697)</u>
	<u>369</u>	<u>369</u>
CAPITAL AND RESERVES		
Called up equity share capital (Note 10)	202	202
Profit and loss account (Note 10)	167	167
Equity shareholders' funds (Note 10)	<u>369</u>	<u>369</u>

The financial statements on pages 4 to 10 were approved by the board of directors on 30 June 1998 and are signed on their behalf by:



P A Walker
Director

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1997

1 ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

(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	- Nil
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

No depreciation is charged on the company's freehold buildings because it is the company's practice to maintain these assets in a continual state of sound repair and the directors consider that the economic life of the properties and their residual values are such that depreciation is not significant.

(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 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.

(g) 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.

(h) Deferred taxation

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

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1997 (continued)

1 ACCOUNTING POLICIES (continued)

(i) 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.

2 SEGMENT INFORMATION

The geographical analysis of turnover by market is as follows:

	<u>1997</u> £'000	<u>1996</u> £'000
United Kingdom	43,428	35,340
Rest of The World	855	563
	<u>44,283</u>	<u>35,903</u>

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging:

	<u>1997</u> £'000	<u>1996</u> £'000
Staff costs (including directors' emoluments):		
Wages & salaries	8,451	6,457
Social security costs	817	691
Other pension costs	304	233
Research and development (including staff costs)	1,671	954
Depreciation	731	641
Operating lease rentals	22	16
(Profit)/loss on sale of tangible fixed assets	(4)	12
Auditors' remuneration	20	16
	<u>13,982</u>	<u>15,600</u>

Non-audit services supplied by the company's auditors during the year amounted to £3,000 (1996 - £3,000).

The average number of people employed by the Company in the United Kingdom during the year was 430 (1996 - 360).

4 EMOLUMENTS OF DIRECTORS

Aggregate executive emoluments, totalled £1,562,445 (1996 - £1,263,871) including pension contributions of £135,000 (1996 - £99,000). In addition to this £62,000 (1996: £nil) was payable to A D Goldman and £20,000 (1996: £nil) was payable to T P Maxfield upon their retirement being non-cash benefits representing motor vehicles.

The emoluments of the highest paid director including pension contributions of £32,000 (1996 - £27,000) was £272,000. (1996 - £297,000).

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1997 (continued)

5 INTEREST PAYABLE

	<u>1997</u> £'000	<u>1996</u> £'000
Interest payable on borrowing repayable within five years:		
Finance charges on finance lease agreements	2	5
	<u> </u>	<u> </u>

6 TAXATION

	<u>1997</u> £'000	<u>1996</u> £'000
Corporation tax on profits for the year at 32% (1996 - 33%)	7,929	6,220
	<u> </u>	<u> </u>

7 TANGIBLE FIXED ASSETS

	<u>Freehold land and buildings</u> £'000	<u>Plant and equipment</u> £'000	<u>Fixtures and fittings</u> £'000	<u>Motor vehicles</u> £'000	<u>Total</u> £'000
<u>Cost:</u>					
At 1 October 1996	10,683	2,470	1,262	814	15,229
Additions	64	703	145	465	1,377
Disposals	-	(1,222)	-	(297)	(1,519)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 September 1997	10,747	1,951	1,407	982	15,087
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Depreciation:</u>					
At 1 October 1996	4	1,419	419	282	2,124
Provision for the year	-	415	142	174	731
Disposals	-	(1,062)	-	(156)	(1,218)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 September 1997	4	772	561	300	1,637
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Net book amount:</u>					
At 30 September 1997	10,743	1,179	846	682	13,450
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 September 1996	10,679	1,051	843	532	13,105
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Tangible fixed assets include an amount of £59,000 (1996 - £77,000) in respect of assets held under finance lease contracts. The depreciation charge for the year on these assets amounted to £17,000 (1996 - £23,000).

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1997 (continued)

8 CREDITORS: amounts falling due within one year

	<u>1997</u> £'000	<u>1996</u> £'000
Finance lease obligations	3	30
Amounts due to group undertakings	29,018	12,921
Corporation tax	8,069	6,133
	—	—
	37,090	19,084
	==	==

9 DEFERRED TAXATION

The full potential deferred tax liability, for which no provision has been made, is as follows:

	<u>1997</u> £'000	<u>1996</u> £'000
Tax deferred by accelerated capital allowances	548	352
Other timing differences	(8)	(5)
	—	—
	540	347
	==	==

10 EQUITY SHARE CAPITAL AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>Profit and loss</u> <u>account</u> £'000	<u>Share</u> <u>capital</u> £'000	<u>Equity</u> <u>Shareholders'</u> <u>funds</u> £'000
At 1 October 1996	167	202	369
Profit for the year	16,097	-	16,097
Dividends	(16,097)	-	(16,097)
	—	—	—
At 30 September 1997	167	202	369
	==	==	==

Equity share capital comprises 202,000 authorised, allotted and fully paid ordinary shares of £1 each.

SAGESOFT LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1997 (continued)

11 OPERATING LEASE COMMITMENTS

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

	<u>1997</u> £'000	<u>1996</u> £'000
Expiring within two to five years	<u>23</u>	<u>24</u>
	23	24
	=	=

12 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.

13 CAPITAL COMMITMENTS

The Company had no contracted capital commitments at 30 September 1997 (1996: £Nil).

14 ULTIMATE PARENT UNDERTAKING

The Company's 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 Sage House, Benton Park Road, Newcastle upon Tyne, NE7 7LZ.

15 RELATED PARTY TRANSACTIONS

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.