

Softkey International (UK) Limited

**Directors' report and financial statements
6 January 1996**

Registered Number 1638551



Softkey International (UK) Limited

**Financial Statements
6 January 1996**

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Softkey International (UK) Limited

Directors' Report

The directors present their report and audited financial statements for the 53 week period ended 6 January 1996.

Principal Activities

The principal activity of the company is that of sale and distribution of computer software.

Business Review and Future Developments

The results are as follows:-

	53 weeks ended 6 January 1996	18 months ended 31 December 1994
	£	£
Profit/(Loss) for the financial period	779,578	(865,929)

The ultimate parent company has confirmed that it will continue to provide financial support for at least the next twelve months. The directors consider that the result for 1996 is satisfactory and expect that the business will continue to develop as market share grows and new products are introduced.

Proposed Dividend

The directors do not recommend the payment of a dividend.

Changes in Fixed Assets

The movements in fixed assets during the period are set out in note 9 to the financial statements.

Directors and Directors' Interests

The directors who served during the period were as follows:-

David Patrick (Chairman)
Larry Preiser (appointed 26 May 1995)

None of the directors had any interest in the share capital of the company. L H Massa resigned as a director of the company on 13 April 1995.

Statement of Directors' Responsibilities

The directors are required by UK company law to prepare financial statements for each financial period which give a true and fair view of the state of the affairs of the company at the end of the financial period and of the profit and 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 the preparation of the financial statements for the period ended 6 January 1996. 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 are also responsible for maintaining adequate accounting records, for safeguarding the assets of the company and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Auditors

A resolution to re-appoint Coopers & Lybrand will be proposed at the forthcoming Annual General Meeting.

By order of the board

For and on behalf of
CLIFFORD CHANCE SECRETARIES LTD.

Authorised Signatory

Clifford Chance
ll **Legibus Secretaries Limited**
Secretary

Report of the Auditors to the members of Softkey International (UK) Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of directors and auditors

As described on page 3, 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 the company's affairs at 6 January 1996 and of its profit and cash flows for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
CHARTERED ACCOUNTANTS
AND REGISTERED AUDITORS

London *28 January 1997*

Softkey International (UK) Limited

Profit and Loss Account for the period ended 6 January 1996

	Notes	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
Turnover	2	4,457,883	3,179,183
Cost of Sales		(2,115,156)	(2,009,660)
Gross Profit		2,342,727	1,169,523
Administrative expenses		(1,576,667)	(1,890,102)
Exceptional administrative expenses (principally office relocation costs)		-	(212,004)
Operating Profit/(Loss)		766,060	(932,583)
Other interest receivable and similar income	6	16,830	20,685
Interest payable and similar charges	7	(1,112)	(16,462)
Profit/(Loss) on ordinary activities before taxation	3	781,778	(928,360)
Taxation on profit/(loss) on ordinary activities	8	(2,200)	62,431
Profit/(Loss) on ordinary activities after taxation for the financial period		779,578	(865,929)
Accumulated deficit brought forward		(900,586)	(34,657)
Accumulated deficit carried forward		(121,008)	(900,586)

The company's profits and losses were all derived from continuing activities.

The company has no recognised gains or losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit before taxation and the profit for the period/year stated above and their historical cost equivalents.

Softkey International (UK) Limited

Balance Sheet as at 6 January 1996

	Notes	6 January 1996 £	31 December 1994 £
Fixed Assets			
Tangible Assets	9	62,167	71,241
Current Assets			
Stocks	10	-	303,170
Debtors	11	3,166,583	2,614,237
Cash at bank and in hand		620,394	341,574
		<u>3,786,977</u>	<u>3,258,981</u>
Creditors - Amounts falling due within one year	12	(3,960,152)	(4,220,808)
Net Current Liabilities		<u>(173,175)</u>	<u>(961,827)</u>
Net Liabilities		<u>(111,008)</u>	<u>(890,586)</u>
Capital & Reserves			
Called up share capital	13	10,000	10,000
Profit and loss account		(121,008)	(900,586)
Deficit on equity shareholders' funds	15	<u>(111,008)</u>	<u>(890,586)</u>

These financial statements were approved by the board of directors on 28 January 1997
and were signed on its behalf by:-



L Preiser
Director

Softkey International (UK) Limited

**Cash Flow Statement
for the period ended 6 January 1996**

		53 weeks ended 6 January 1996	18 months ended 31 December 1994
	Notes	£	£
Net cash (outflow)/inflow from operating activities	16	296,040	(85,784)
Returns on investments and servicing of Finance			
Interest received		16,830	20,524
Interest paid		<u>-</u>	<u>(16,462)</u>
Net cash inflow from returns on investment and servicing of finance		16,830	4,062
Taxation			
UK corporation tax paid		-	-
UK corporation tax received		<u>-</u>	<u>214,623</u>
Tax received/(paid)		-	214,623
Investing activities			
Purchase of tangible fixed assets		(34,050)	(93,196)
Sale of tangible fixed assets		<u>-</u>	<u>5,759</u>
Net cash (outflow) from investing activities		(34,050)	(87,437)
Net cash inflow before financing		<u>278,820</u>	<u>45,464</u>
Increase in cash and cash equivalents	17	<u>278,820</u>	<u>45,464</u>

Softkey International (UK) Limited

Notes (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 company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention, applicable Accounting Standards in the United Kingdom and on a going concern basis which assumes the continuing support of the ultimate parent company. The directors of Softkey International (UK) Limited have received a letter of support from the ultimate parent company indicating their intention to continue funding Softkey International (UK) Limited for at least the next twelve months.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of the tangible assets by equal instalments over their estimated useful economic lives as follows:-

Leasehold property	life of lease
Motor vehicles	5 years
Office Equipment	3 years
Computer equipment	3 years
Transport equipment	3 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Operating leases

All operating lease rental charges are charged to the profit and loss account on a straight line basis over the life of the leases.

Display Racks

Expenditure on advertising display racks is charged to the profit and loss account over the expected useful lives of the racks of 12 months.

Softkey International (UK) Limited

Notes (continued)

1. Accounting Policies (continued)

Pension costs

Pension contributions have been paid into the employees voluntary individual pension schemes. The amount charged against profits represents the contributions payable in respect of the employees for the accounting period.

Stocks

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

Taxation

The charge for taxation is based on the result for the period and takes into account taxation deferred because of the timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is possible that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax and trade discounts) derived from the provision of goods and services to customers, net of returns, during the period.

2. Turnover

All turnover is generated in Europe.

3. Profit/(Loss) on ordinary activities before tax

Profit/(Loss) on ordinary activities before tax is stated after charging:-

	53 weeks ended 6 January 1996	18 months ended 31 December 1994
	£	£
Auditors' remuneration		
Audit	-	17,018
Other services	-	2,000
Depreciation and other amounts written off tangible fixed assets	43,110	65,353
Hire of other assets - operating leases	<u>37,146</u>	<u>43,062</u>

Audit fees of £11,000 in the current year were borne by the parent company.

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Notes (continued)

4. Remuneration of directors

	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
Directors' emoluments		
As directors	30,953	75,104
Pensions	-	4,895
Compensation for loss of office	-	30,000
	<u>30,953</u>	<u>109,999</u>

The emoluments, excluding pension contributions, of the chairman were £Nil (1994 - Nil) and those of the highest paid director were £30,953 (1994 - £64,248).

The emoluments, excluding pension contributions, of the directors (including the chairman and highest paid director) were within the following ranges:-

	Number of directors 53 weeks ended 6 January 1996	18 months ended 31 December 1994
£0 - £5,000	2	3
£30,001 - £35,000	1	-
£40,001 - £45,000	-	1
£60,001 - £65,000	-	1
	<u> </u>	<u> </u>

5. Staff numbers and costs

The average number of persons employed by the company (including executive directors) during the period, analysed by category, was as follows:-

	Number of employees 53 weeks ended 6 January 1996	18 months ended 31 December 1994
Sales and marketing	7	10
Finance and administration	2	5
	<u>9</u>	<u>15</u>

Softkey International (UK) Limited

Notes (continued)

5. Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:-

	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
Wages and salaries	220,215	365,347
Social security costs	25,764	35,182
Other pension costs	16,008	37,438
	<u>261,987</u>	<u>437,967</u>

6. Other interest receivable and similar income

	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
Foreign exchange gains	-	4,113
Interest receivable	16,830	16,572
	<u>16,830</u>	<u>20,685</u>

7. Interest payable and similar charges

	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
Foreign exchange losses	(1,112)	-
Interest payable on amounts owed to parent undertaking, wholly repayable within 5 years not by instalments	-	(16,462)
	<u>(1,112)</u>	<u>(16,462)</u>

Softkey International (UK) Limited

Notes (continued)

8. (a) Taxation

	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
UK Corporation tax charge at 33%	5,600	-
Adjustment for prior years	-	(62,431)
Advance corporation, previously written off now written back	(3,400)	-
	<u>2,200</u>	<u>(62,431)</u>

(b) Deferred Tax

The company has not recognised a deferred tax asset in respect of trading losses or other timing differences.

9. Tangible fixed assets

	Short leasehold property	Office equipment	Computer equipment	Total
Cost				
1 January 1995	62,344	131,816	273,767	467,927
Additions	1,180	3,296	29,574	34,050
Disposals	-	(20)	(8,608)	(8,628)
6 January 1996	<u>63,524</u>	<u>135,092</u>	<u>294,733</u>	<u>493,349</u>
Depreciation and diminution in value				
1 January 1995	14,396	125,369	256,921	396,686
Charge for period	13,438	5,585	24,087	43,110
Disposals	-	(6)	(8,608)	(8,614)
6 January 1996	<u>27,834</u>	<u>130,948</u>	<u>272,400</u>	<u>431,182</u>
Net Book Value				
6 January 1996	<u>35,690</u>	<u>4,144</u>	<u>22,333</u>	<u>62,167</u>
31 December 1994	<u>47,948</u>	<u>6,447</u>	<u>16,846</u>	<u>71,241</u>

Softkey International (UK) Limited

Notes (continued)

10. Stocks

	6 January 1996 £	31 December 1994 £
Finished goods and goods for resale	-	303,170

11. Debtors

	6 January 1996 £	31 December 1994 £
Amounts falling due within one year		
Trade debtors	885,432	699,041
Amounts owed by parent and fellow subsidiary undertakings	1,991,556	1,796,915
Prepayments and accrued income	239,815	118,281
Deferred merchandising expenditure	49,780	-
	<u>3,166,583</u>	<u>2,614,237</u>

12. Creditors - amounts falling due within one year

	6 January 1996 £	31 December 1994 £
Trade creditors	143,342	138,591
Amounts owed to parent and fellow subsidiary undertakings	3,303,395	3,683,885
Other creditors including taxation and social security:		
Other taxes	193,949	-
Social security	14,937	11,394
Accruals and deferred income	304,529	386,938
	<u>3,960,152</u>	<u>4,220,808</u>

Softkey International (UK) Limited

Notes (continued)

13. Called up share capital

	6 January 1996 £	31 December 1994 £
Authorised 10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid 10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>

14. Commitments

The company had commitments under non-cancellable operating leases as follows:-

	Land and Buildings		Motor Vehicles	
	1996 £	1994 £	1996 £	1994 £
Expiring within:-				
1 year	-	-	-	17,020
2 - 5 years	71,049	62,707	32,578	16,572
over 5 years	-	-	-	-
	<u>71,049</u>	<u>62,707</u>	<u>32,578</u>	<u>33,592</u>

15. Reconciliation of movements in deficit in shareholders' funds

	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
Opening deficit in shareholders' funds	(890,586)	(24,657)
Profit/(Loss) for the financial period	<u>779,578</u>	<u>(865,929)</u>
Closing deficit in shareholders' funds	<u>(111,008)</u>	<u>(890,586)</u>

Softkey International (UK) Limited

Notes (continued)

16. Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	53 weeks ended 6 January 1996 £	18 months ended 31 December 1994 £
Operating Profit/(Loss)	766,060	(932,583)
Depreciation charge	43,110	65,353
Exchange loss	(1,112)	-
Loss/(Profit) on sale of tangible fixed assets	14	(5,195)
Decrease/(Increase) in stocks	303,170	(150,604)
(Increase) in debtors	(552,346)	(1,861,609)
(Decrease)/Increase in creditors	(262,856)	2,798,854
Net cash inflow/(outflow) from operating activities	<u>296,040</u>	<u>(85,784)</u>

17. Analysis of changes in cash and cash equivalents as shown in the balance sheet

	6 January 1996 £	Change in period £	31 December 1994 £	Change in period £	3 July 1993 £
Cash at bank and in hand	620,394	278,820	341,574	45,464	296,110

18. Ultimate parent company

At the period end the company's ultimate parent company was Softkey International Incorporated, a company incorporated in the United States of America.

Group accounts of the ultimate parent company may be obtained from the company secretary,
1 Athenaeum Street, Cambridge, MA 02142 USA.