

Fourth Shift Europe Limited
(formerly Fourth Shift UK Limited)

Accounts 31 December 1995
together with directors' and auditors' reports

Registered number: 2579692



Directors' report

For the year ended 31 December 1995

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1995.

Principal activities and business review

The principal activities of the company continue to be software distribution and support. In the current year the company made a loss on ordinary activities after taxation of £33,675 (1994 - profit of £96,851).

Turnover was broadly consistent with prior year. Growth in sales of the MSS side of the business were balanced by a reduction in JIT revenues.

At the year end, all assets and liabilities relating to the JIT business were transferred to the parent company at net book value in preparation for the sale of the JIT business to a third party on 1 January 1996.

The company changed its name from Fourth Shift UK Limited to Fourth Shift Europe Limited on 6 September 1996.

Results and dividends

Results and dividends are as follows:

	£
Retained profit at 1 January 1995	205,269
Loss for the year after taxation	(33,675)
Retained profit at 31 December 1995	<u>171,594</u>

No dividend was paid or proposed.

Directors and their interests

The directors who served during the year are shown below.

J.H. Caldwell
J.H. Wolfenden (appointed 28 February 1995)
M.M. Stuckey
J.M. Wood (Chairman)

The directors have no interests in the shares of the company required to be disclosed under Schedule 7 of the Companies Act 1985.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare accounts 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 of the company for that period. In preparing those accounts, 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 accounts; and
- 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 and which enable them to ensure that the accounts 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.

Fixed assets

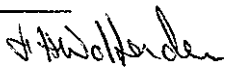
Information relating to changes in tangible fixed assets is given in note 6 to the accounts.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

10/11 Magellan Terrace
Crawley
West Sussex
RH10 2PS

By order of the Board,


J.H. Wolfenden
Director

29 October 1996

Auditors' report

London

To the Shareholders of Fourth Shift Europe Limited:

We have audited the accounts on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, of those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1995 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

29 October 1996

Profit and loss account

For the year ended 31 December 1995

	Notes	1995 £	1994 £
Turnover	2	4,362,052	4,415,107
Cost of sales		(2,118,169)	(2,027,075)
Gross profit		2,243,883	2,388,032
Administrative expenses		(2,258,704)	(2,239,250)
Operating (loss) profit		(14,821)	148,782
Interest receivable and similar income		16,646	7,069
Profit on ordinary activities before taxation	3	1,825	155,851
Tax on profit on ordinary activities	5	(35,500)	(59,000)
(Loss) profit on ordinary activities after taxation		(33,675)	96,851
Retained (loss) profit for the year		(33,675)	96,851
Retained profit at the beginning of the year		205,269	108,418
Retained profit at the end of the year		171,594	205,269

There are no recognised gains or losses in either year other than the (loss) profit for each year.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

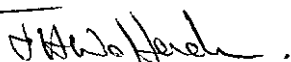
31 December 1995

	Notes	1995 £	1994 £
Fixed assets			
Tangible assets	6	162,035	272,410
Current assets			
Debtors	7	1,277,635	1,811,122
Cash at bank and in hand		703,248	396,453
		<u>1,980,883</u>	<u>2,207,575</u>
Creditors: Amounts falling due within one year	8	(1,846,324)	(2,137,119)
Net current assets		<u>134,559</u>	<u>70,456</u>
Total assets less current liabilities		<u>296,594</u>	<u>342,866</u>
Creditors: Amounts falling due after more than one year	9	-	(12,597)
Net assets		<u>296,594</u>	<u>330,269</u>
Capital and reserves			
Called-up share capital	12	100,000	100,000
Capital redemption reserve	13	25,000	25,000
Profit and loss account	13	171,594	205,269
Equity shareholders' funds		<u>296,594</u>	<u>330,269</u>

Signed on behalf of the Board

J.H. Wolfenden

Director



29 October 1996

The accompanying notes are an integral part of this balance sheet.

Cash flow statement

For the year ended 31 December 1995

	Notes	1995		1994	
		£	£	£	£
Net cash inflow from operating activities	14a		440,030		514,004
Returns on investments and servicing of finance					
Interest received and similar income		17,614		7,069	
Interest paid		(969)		-	
Net cash inflow from returns on investments and servicing of finance			16,645		7,069
Taxation					
UK corporation tax paid		(80,164)		(53,000)	
Tax paid			(80,164)		(53,000)
Investing activities					
Purchase of tangible fixed assets		(99,621)		(256,751)	
Sale of tangible fixed assets		29,905		-	
Net cash outflow from investing activities			(69,716)		(256,751)
Net cash inflow before financing			306,795		211,322
Increase in cash and cash equivalents	14b		306,795		211,322

The accompanying notes are an integral part of this cashflow statement.

Notes to accounts

31 December 1995

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Tangible fixed assets

Fixed assets are shown at cost. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Fixtures and fittings	3-10 years
Computer equipment	2 years

c) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax legislation) has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse at the rates of tax likely to be in force at the time of reversal.

Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. However, the amount of all deferred tax, including that which will probably not reverse, is shown in note 10.

d) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract).

Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

e) Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services in the normal course of business.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Revenue recognition policy

Hardware and software sales are recognised on delivery only if there are no contingencies or future significant vendor obligations or in such circumstances where the relevant contingencies or obligations have been satisfied. Training and other consulting revenue is recognised when the service is performed. Maintenance revenue is recognised rateably over the period of contract.

g) Leases

The company enters into operating leases. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Further information on charges in the year and future commitments is given in note 15.

h) Pension arrangements

The company contributes to employees' personal pension schemes at a rate of 3% of gross salary for the qualifying members.

2 Segment information

All activity relates to hardware and software distribution and support.

	1995 £	1994 £
Turnover by geographical destination:		
United Kingdom	3,263,905	3,477,123
Other European countries	755,159	626,608
Africa and Middle East	302,718	311,376
Rest of world	40,270	-
	<u>4,362,052</u>	<u>4,415,107</u>

Notes to accounts (continued)

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1995 £	1994 £
a) Depreciation on owned tangible fixed assets	180,092	137,230
b) Operating lease rentals		
- motor vehicles	153,611	102,435
- property	97,440	80,605
c) Auditors' remuneration		
- audit fees	18,500	18,000
- other	8,622	14,240
d) Staff costs (see note 4)	1,249,391	1,036,345
e) Research and development		
- amortisation of deferred expenditure	-	6,579

4 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1995 £	1994 £
Employee costs during the year amounted to:		
Wages and salaries	1,092,941	903,839
Social security costs	127,659	119,123
Other pension costs	28,791	13,383
	<u>1,249,391</u>	<u>1,036,345</u>

The average weekly number of persons employed by the company during the year was as follows:

	1995 Number	1994 Number
Consultancy	12	7
Support	6	6
Sales	10	10
Development	3	8
Administration	8	7
	<u>39</u>	<u>38</u>

Notes to accounts (continued)

4 Staff costs (continued)

Directors' remuneration:

Directors' remuneration was paid in respect of directors of the company as follows:

	1995 £	1994 £
Aggregate emoluments	<u>260,037</u>	<u>92,000</u>

The directors' aggregate emoluments shown above (excluding pensions and pension contributions) included:

	1995 £	1994 £
Chairman	<u>156,763</u>	<u>89,220</u>

Directors who discharged their duties wholly or mainly within the UK received emoluments (excluding pensions and pension contributions) in the following ranges:

	1995 Number	1994 Number
Up to £ 5,000	-	1
£ 85,001 - £ 90,000	-	1
£100,001 - £105,000	1	-
£155,001 - £160,000	<u>1</u>	<u>-</u>

5 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1995 £	1994 £
Corporation tax at 33% (1994 - 33%)	28,200	70,150
Deferred taxation arising from capital allowances	-	(11,150)
	<u>28,200</u>	<u>59,000</u>
Adjustment in respect of prior years current taxation	7,300	-
	<u>35,500</u>	<u>59,000</u>

Notes to accounts (continued)

6 Tangible fixed assets

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
Beginning of year	102,243	478,292	580,535
Additions	887	98,734	99,621
Disposals	-	(103,409)	(103,409)
End of year	<u>103,130</u>	<u>473,617</u>	<u>576,747</u>
Depreciation			
Beginning of year	35,998	272,127	308,125
Charge	8,713	171,379	180,092
Disposals	-	(73,505)	(73,505)
End of year	<u>44,711</u>	<u>370,001</u>	<u>414,712</u>
Net book value			
Beginning of year	<u>66,245</u>	<u>206,165</u>	<u>272,410</u>
End of year	<u>58,419</u>	<u>103,615</u>	<u>162,035</u>

7 Debtors

	1995 £	1994 £
Amounts falling due within one year:		
Trade debtors	1,117,283	1,078,358
Amounts owed by the ultimate parent company	57,373	464,035
Other debtors	5,887	2,200
Prepayments and accrued income	<u>79,442</u>	<u>248,879</u>
Amounts falling due after one year:	1,259,985	1,793,472
Deferred tax (see note 10)	<u>17,650</u>	<u>17,650</u>
	<u>1,277,635</u>	<u>1,811,122</u>

Notes to accounts (continued)

8 Creditors: Amounts falling due within one year

	1995 £	1994 £
Trade creditors	374,841	838,244
Other creditors		
- UK corporation tax payable	29,875	74,539
- VAT	153,977	28,937
- social security and PAYE	52,711	62,330
- other creditors	-	15,677
Accruals and deferred income	1,234,920	1,117,392
	<u>1,846,324</u>	<u>2,137,119</u>

9 Creditors: Amounts falling due after more than one year

	1995 £	1994 £
Accruals and deferred income	-	12,597

10 Provisions for liabilities and charges

Deferred taxation is provided to the extent that the directors have concluded on the basis of reasonable assumptions and the intentions of management that it is probable that the asset will be recoverable in total.

	1995 £	1994 £
Excess of tax allowances over book depreciation of fixed assets	<u>17,650</u>	<u>17,650</u>

The movement on deferred taxation asset comprises:

	1995 £	1994 £
Beginning of year	17,650	6,500
Credited to profit and loss, in respect of capital allowances	-	11,150
End of year	<u>17,650</u>	<u>17,650</u>

This deferred tax asset is included in debtors falling due after one year. The value of the deferred tax asset is £44,150, (1994 - £17,650) of which £26,500 (1994 - nil) is not recognised in the accounts, an increase of £26,500 unrecognised asset during the year.

Notes to accounts (continued)

11 Reconciliation of movement in shareholders' funds

	1995 £	1994 £
(Loss) profit for the financial year	(33,675)	96,851
Opening shareholders' funds	330,269	233,418
Closing shareholders' funds	<u>296,594</u>	<u>330,269</u>

12 Called-up equity share capital

	1995 £	1994 £
<i>Authorised</i>		
75,000 'A' ordinary shares of £1 each	75,000	75,000
25,000 'B' ordinary shares of £1 each	25,000	25,000
25,000 'C' ordinary shares of £1 each	25,000	25,000
14,000 'D' ordinary shares of £1 each	14,000	14,000
	<u>139,000</u>	<u>139,000</u>
<i>Allotted, called-up and fully-paid</i>		
75,000 'A' ordinary shares of £1 each	75,000	75,000
25,000 'B' ordinary shares of £1 each	25,000	25,000
	<u>100,000</u>	<u>100,000</u>

All shares rank pari passu in all respects as if they constituted one class of share other than in respect of the distribution of intangible assets. On a return of capital on liquidation or otherwise, any intangible assets owned by the company remaining after payment of liabilities are distributed in specie to the holders of the A shares. All other remaining assets are distributed pari passu.

Notes to accounts (continued)

13 Reserves

Of total reserves shown in the company's balance sheet, the following amounts are regarded as distributable or otherwise:

	1995 £	1994 £
Distributable		
- profit and loss account	171,594	205,269
Non-distributable		
- capital redemption reserve	25,000	25,000
Total reserves	<u>196,594</u>	<u>230,269</u>

	Capital redemption reserve £	Profit and loss account £	Total £
Beginning of year	25,000	205,269	230,269
Transfer from profit and loss account	-	(33,675)	(33,675)
End of year	<u>25,000</u>	<u>171,594</u>	<u>196,594</u>

14 Cash flow information

a) Reconciliation of operating profit to net cash inflow from operating activities:

	1995 £	1994 £
Operating (loss) profit	(14,821)	148,782
Depreciation and amortisation charges	180,092	143,809
Decrease (increase) in debtors	533,487	(756,263)
(Decrease) increase in creditors	(258,728)	977,676
Net cash inflow from operating activities	<u>440,030</u>	<u>514,004</u>

b) Analysis of changes in cash and cash equivalents during the year:

	£
Balance at 1 January 1995	396,453
Net cash inflow	306,795
Balance at 31 December 1995	<u>703,248</u>

Notes to accounts (continued)

15 Guarantees and other financial commitments

a) Lease commitments

The minimum annual rentals under the foregoing leases are as follows:

	Property £	Motor vehicles £
1994		
Operating leases which expire		
- within 1 year	-	3,117
- within 2-5 years	29,400	111,933
- after 5 years	89,575	-
	<u>118,975</u>	<u>115,050</u>
1995		
Operating leases which expire		
- within 1 year	-	9,196
- within 2-5 years	-	90,614
- after 5 years	91,000	-
	<u>91,000</u>	<u>99,810</u>

As from 3 April 1992, the company leased certain land and buildings on an operating lease expiring on 3 April 2002, with an option to break on 3 April 1997. The annual payment in respect of this lease to the next rent review is £91,000. The rent payable under this lease is subject to renegotiation at various intervals specified in the lease. The company pays all insurance, maintenance and repairs of this property.

b) Capital commitments

There were no capital commitments as at 31 December 1995 (1994 - £nil).

16 Related party transactions

The company purchases a significant proportion of its software from the parent company under a licensing agreement. All amounts are included within cost of sales.

17 Disposal of JIT business

At the year end, all the assets and liabilities relating to the JIT business were transferred to the parent company at net book value at year end in preparation for the sale of the JIT business to a third party on 1 January 1996.

Of the total sales for the year, £1,019,013 relate to JIT (1994 - £1,363,380). The net assets transferred to the parent company amounted to £211,336.

Notes to accounts (continued)

18 Ultimate parent company

The company is a subsidiary undertaking of Fourth Shift Corporation, incorporated in the United States of America.

The results of Fourth Shift UK Limited are consolidated only in the group financial statements of Fourth Shift Corporation.

Copies of the group financial statements of Fourth Shift Corporation are available from its registered office at 7900 International Drive, Suite 450, Minneapolis, Minnesota, USA.