

Registered no: 2579692

SoftBrands Europe Limited

Annual report

for the 9 month period ended 30 September 2004



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SoftBrands Europe Limited

Annual report for the 9 month period ended 30 September 2004

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SoftBrands Europe Limited

Directors and advisers

Directors

B.J. Crowe
P.J.C. Francis
M.D. Knight
D.G. Latzke
G.A. Robinson

Secretary

P.J.C. Francis

Registered Office

SoftBrands House
11 Worton Drive
Reading
Berkshire
RG2 0LX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
The Atrium
1 Harefield Road
Uxbridge
Middlesex, UB8 1EX

SoftBrands Europe Limited

Directors' report for the 9 month period ended 30 September 2004

The directors present their report and the audited financial statements for the 9 month period ended 30 September 2004.

Principal activities

The principal activity of the company continues to be that of hardware and software distribution and support to the manufacturing and hospitality sectors.

Review of business and future developments

Since the prior year end the company changed its accounting reference date to 30 September. This has resulted in a shortened accounting period of 9 months for the period ended 30 September 2004. The comparative period is 12 months ending 31 December 2003.

During the 9 month period the business made a loss of £547,000 (year ended 31 December 2003: loss of £500,000). This includes restructuring charges of £nil (2003: £662,000) which were made to improve profitability in future periods.

Results and dividends

The loss for the period was £547,000 (2003: £500,000) which will be deducted from reserves. The directors do not recommend the payment of a dividend (2003: £nil).

Financial support

The directors have received written confirmation from the ultimate parent company, SoftBrands Inc, that it intends to provide such financial support to the Company as is necessary for the foreseeable future and at least for the next 12 months from the approval of the financial statements, to enable it to continue in operation without any significant curtailment and to meet its liabilities as they fall due.

Directors and their interests

The directors who held office during the period and up to the date of signing these financial statements are given below:

M.D. Knight

P.J.C. Francis (Company Secretary)

D.G. Latzke

B.J. Crowe

G.A. Robinson

Appointed 3 June 2004

The directors had no interests in the shares of the company or any other body corporate in the group that are required to be disclosed under Schedule 7 of the Companies Act 1985.

Research and development

£321,136 (2003: £337,000) was charged to the profit and loss account in respect of the continued development of various core software products.

SoftBrands Europe Limited

Directors' report for the 9 month period ended 30 September 2004 (continued)

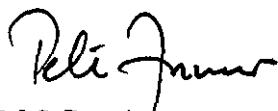
Post balance sheet events

On October 6, 2005, the ultimate parent company, SoftBrands Inc, filed for a listing on the American Stock Exchange (AMEX). There have been no other significant post balance sheet events.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



P.J.C. Francis
Director

Date: 7th December 2005

SoftBrands Europe Limited

Statement of directors' responsibilities

UK company law requires the directors to prepare financial statements for each financial period 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 financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make adjustments 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 financial statements; and
- prepare the financial statements 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 to 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.

SoftBrands Europe Limited

Independent auditors' report to the members of SoftBrands Europe Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

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 into 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.

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 September 2004 and of its loss for the period then ended have been properly prepared in accordance with the Companies Act 1985.

Priscilla Cooper LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
West London
Date: 7th December 2005

SoftBrands Europe Limited

Profit and loss account for the 9 month period ended 30 September 2004

	Note	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Turnover	2	7,478	11,756
Cost of sales		(5,018)	(7,266)
Gross Profit		2,460	4,490
Administrative expenses		(3,027)	(5,009)
Operating loss	3	(567)	(519)
Interest receivable and similar income		20	21
Interest payable and similar charges		-	(2)
Loss on ordinary activities before taxation		(547)	(500)
Taxation credit on profit / loss on ordinary activities	6	-	-
Loss for the financial period	13	(547)	(500)

All business activities of the company arose from continuing operations.

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

There is no material difference between the loss on ordinary activities before taxation and the loss for the period stated above, and their historic cost equivalents.

The notes on pages 9 to 19 form part of these financial statements.

SoftBrands Europe Limited

Balance sheet as at 30 September 2004

	Note	30 September 2004 £'000	31 December 2003 £'000
Fixed assets			
Intangible assets	7	1,080	1,440
Tangible assets	8	278	335
		1,358	1,775
Current assets			
Debtors	9	3,219	5,186
Cash at bank and in hand		1,834	1,631
		5,053	6,817
Creditors – Amounts falling due within one year	10	(9,015)	(10,594)
Net current liabilities		(3,962)	(3,777)
Total assets less current liabilities		(2,604)	(2,002)
Provision for liabilities and charges	11	(680)	(735)
Net liabilities		(3,284)	(2,737)
Capital and reserves			
Called up share capital	12	100	100
Capital redemption reserve	13	25	25
Profit and loss account	13	(3,409)	(2,862)
Total equity shareholders' deficit	14	(3,284)	(2,737)

The financial statements on pages 7 to 19 were approved by the Board of Directors on 7th December 2005 and were signed on its behalf by:


P.J.C. Francis
Director

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004

1 Principal accounting policies

Basis of accounting

The financial statements are prepared under the historic cost convention, in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom and the accounting policies set out below, applied consistently throughout the year.

Basis of preparation

The directors have received written confirmation from the ultimate parent company, SoftBrands Inc, that it intends to provide such financial support to the Company as is necessary for the foreseeable future and at least for the next 12 months from the approval of the financial statements, to enable it to continue in operation without any significant curtailment and to meet its liabilities as they fall due.

Accordingly they consider it appropriate for the financial statements to be prepared on a going concern basis.

Basis of consolidation

The financial statements contain information about SoftBrands Europe Limited as an individual company and do not contain consolidated information as the parent of a group. The Company is exempt from the obligation to prepare and deliver group financial statements under Section 248 of the Companies Act 1985.

Intangible fixed assets

Intangible assets represent purchased goodwill arising on the acquisition of businesses (see note 7). Purchased goodwill is capitalised and amortised on a straight-line basis over its useful economic life of 5 years. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition, and in other years if event or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation.

Depreciation is provided so as to write off the cost of fixed assets to their estimated residual value over their expected useful economic lives. The principal annual depreciation rates and methods of calculation are as follows:

Leasehold Improvements	-over the lease term
Fixtures, fittings and equipment	-20-33% per annum on cost
Computer Equipment	-33-50% per annum on cost

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

1 Principal accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where the 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. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured using the average tax rate that is expected to apply in the year in which the timing differences are expected to reverse. An asset is recognised where it is more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax assets and liabilities recognised have not been discounted.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Turnover

The company recognises revenue from the sale of software and hardware systems at the time of installation of the system, provided no significant obligations remain and collection of the resulting receivable is deemed probable. Revenue from add-on hardware sales is recognised when the hardware is shipped to the customer. Revenue related to service contracts is recognised rateably over the lives of the contracts. Consulting and specialised software development revenue is recognised in accordance with the terms of the contract.

Provisions policy

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Operating leases

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term.

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

1 Principal accounting policies (continued)

Leased and hire purchase assets

Assets acquired under finance leases and hire purchase agreements are capitalised and depreciated over the period of the lease. The deemed capital element of future payments is included under creditors. Interest calculated on the straight-line basis is included in interest payable

Development expenditure

Expenditure on the development of computer software is written off to the profit and loss account as it is incurred.

Pension costs

The company contributes to employees' pension schemes at a rate of 3% of salary for the qualifying members, rising to 5% based on services and level within the company. The pension cost in the financial statements is charged to the profit and loss as it is incurred and represents the contributions payable by the company during the year under a defined contribution pension scheme.

Cash flow statement

The company is a wholly-owned subsidiary of a group headed by SoftBrands Inc, a company registered in United States of America and is included in the consolidated financial statements of SoftBrands Inc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms FRS1 (revised 1996).

Related party transactions

The company has taken advantage of the exemption under section 3(c) from the provisions of FRS 8, "Related Party Disclosures", which requires the disclosure of the details of material transactions between the reporting entity and any related parties, on the grounds that it is a wholly owned subsidiary of a group headed by SoftBrands Inc, a company registered in United States of America where accounts are publicly available.

2 Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes) of goods and services provided in the normal course of business. An analysis of turnover by geographical market and turnover and profit by activity has been omitted on the grounds that such information would be prejudicial to the company's market position.

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

3 Operating loss

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Operating loss is stated after charging:		
Amortisation of goodwill	360	480
Depreciation of tangible fixed assets:		
- owned assets	134	235
- assets held under finance lease and hire purchase contracts	-	7
Operating lease charges:		
- plant and machinery	76	168
- others	222	581
Gain/Loss on sale of fixed assets	-	26
Research and development expenditure	321	337
Bad debts written off	122	216
Reorganisation charges:		
- severance pay	150	375
- onerous lease (note 11)	-	287
Auditors' remuneration		
- audit services	25	25
- non-audit services	18	30

4 Employee costs and numbers information

The average monthly number of employees (including executive directors) during the period was made up as follows:

	9 months ended 30 September 2004 Number	Year ended 31 December 2003 Number
By activity		
Consultancy	29	35
Support	33	38
Sales and marketing	10	19
Development	6	5
Administration	18	21
Total	96	118

The costs associated with these employees were as follows:

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Wages and salaries	3,037	4,234
Social security costs	345	495
Pension costs	75	112
Total staff costs	3,457	4,841

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

5 Directors' remuneration

The remuneration of the directors was as follows:

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Directors emoluments	321	655
Company contribution to money purchase pension schemes	19	25
	340	680

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Highest paid director:		
Directors emoluments	97	129
Company contribution to money purchase pension schemes	5	5
	102	134

The number of directors who were members of the money purchase schemes to which the company paid contributions was 4 (2003: 7). During the period nil directors (2003: nil) exercised options over share of SoftBrands Manufacturing Inc.

6 Taxation

The UK corporation tax charge is £nil (2003: nil) in the current period due to:

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Current tax		
Loss on ordinary activities	(547)	(500)
UK Corporation tax at 30% (2003: 30%)	(164)	(150)
Add:		
Permanent differences	15	21
Deferred tax not provided in the period	149	129
Tax on loss on ordinary activities	-	-
Deferred tax asset not provided:		
Depreciation in excess of capital allowances	324	143
Other timing differences	1,422	1,426
	1,746	1,569

The potential deferred tax asset has not been recognised due to the uncertainty as to the timing of suitable taxable profits against which the asset may crystallise.

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

7 Intangible assets

	Purchased Goodwill £'000
Cost	
As at 1 January 2004 and 30 September 2004	2,400
Amortisation	
As at 1 January 2004	960
Charge for the period	360
At 30 September 2004	1,320
Net book value	
At 30 September 2004	1,080
At 31 December 2003	1,440

On 31 December 2001, the company acquired certain assets and liabilities of AremisSoft Hospitality (UK) Limited, (now known as Meta Systems Hospitality (UK) Limited) and AremisSoft (UK) plc (now known as Meta Systems (Holdings) plc), which were previously UK subsidiaries of the ultimate parent company. The acquisitions resulted in a purchased goodwill of £2,400,000. Purchased goodwill is capitalised and amortised on a straight-line basis over its estimated useful economic life of 5 years.

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

8 Tangible assets

	Leasehold Improvements	Fixtures, fittings and equipment	Computer Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2004	570	458	947	1,975
Additions	25	3	49	77
Disposals	-	-	-	-
At 30 September 2004	595	461	996	2,052
Accumulated Depreciation				
At 1 January 2004	442	382	816	1,640
Charge for the period	33	17	84	134
Disposals	-	-	-	-
At 30 September 2004	475	399	900	1,774
Net book amount				
At 30 September 2004	120	62	96	278
At 31 December 2003	128	76	131	335

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

9 Debtors

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Amounts falling due within one year:		
Trade debtors	1,766	2,988
Amounts owed by group undertakings	1,372	1,622
Prepayments and accrued income	81	576
	3,219	5,186

The amounts owed by group undertakings are non-interest bearing.

10 Creditors: amounts falling due within one year

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Trade creditors	311	756
Amounts owed to parent undertaking	5,037	4,997
Other taxes and social security	407	370
Accruals	386	661
Deferred income	2,874	3,810
	9,015	10,594

The amounts owed to parent undertaking are non-interest bearing and have no fixed repayment term.

11 Provision for liabilities and charges

	£'000
At 1 January 2004	735
Charge to the profit and loss account	-
Utilised during the period	(55)
At 30 September 2004	680

The £680k provision relates to the provision for both rental and rates for the vacant Woking building for the remainder of the lease period.

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

12 Called up share capital

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Authorised		
75,000 'A' ordinary shares of £1 each	75	75
25,000 'B' ordinary shares of £1 each	25	25
25,000 'C' ordinary shares of £1 each	25	25
14,000 'D' ordinary shares of £1 each	14	14
	139	139
Allotted, called-up and fully-paid		
75,000 'A' ordinary shares of £1 each	75	75
25,000 'B' ordinary shares of £1 each	25	25
	100	100

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. All shares rank pari passu in all other respects as if they constituted one class of share other than in respect of the distribution of intangible assets.

13 Reserves

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

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Distributable		
- profit and loss account	(3,409)	(2,862)
Non-distributable		
- capital redemption reserve	25	25
Total reserves	(3,384)	(2,837)

	Capital Redemption Reserve £'000	Profit and loss account £'000	Total £'000
As at 1 January 2004	25	(2,862)	(2,837)
Loss for the financial period	-	(547)	(547)
As at 30 September 2004	25	(3,409)	(3,384)

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

14 Reconciliation of movements in shareholders' deficit

	9 months ended 30 September 2004 £'000	Year ended 31 December 2003 £'000
Loss for the period	(547)	(500)
Opening equity shareholders' deficit	(2,737)	(2,237)
Closing equity shareholders' deficit	(3,284)	(2,737)

15 Guarantees and other financial commitments

a) Lease commitments

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

	Land and building £'000	Others £'000
30 September 2004		
Operating leases which expire		
- within 1 year	-	35
- in 2-5 years	369	30
- over 5 years	55	-
	424	65
31 December 2003		
Operating leases which expire		
- within 1 year	-	40
- in 2-5 years	504	80
- over 5 years	55	-
	559	120

b) Guarantees

In the prior year the ultimate holding company, SoftBrands Inc, secured \$20 million of long term financing. Security for this financing includes a fixed and floating charge on all the assets of SoftBrands Europe Limited. In addition the company guarantees payment and fulfillment of all obligations in regard to this financing.

16 Pension commitments

The company operates defined contribution schemes. During the period £74,594 (2003: £112,000) was charged to the profit and loss accounts and there were outstanding contributions at the balance sheet date of £7,628 (2003: £9,000).

SoftBrands Europe Limited

Notes to the financial statements for the 9 month period ended 30 September 2004 (continued)

17 Ultimate parent undertaking and controlling party

The immediate parent undertaking is SoftBrands International Inc, incorporated in the United States of America. The ultimate parent undertaking and the largest group for which consolidated financial statements are available is SoftBrands Inc, incorporated in the United States of America. Copies of the group financial statements of SoftBrands Inc are publicly available from its registered office at Two Meridian Crossings, Minneapolis, USA, MN 55423-3962.