ARTHUR
ANDERSEN

Fourth Shift Europe Limited

Accounts for the year ended 31 December 1998
together with directors' and auditors' reports

Registered number: 2579692

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 1998.

Principal activities

The principal activity of the company continues to be hardware and software distribution and support. In the current year the company made a profit on ordinary activities after taxation of £257,4942 (1997 - loss of £121,506).

Results and dividends

The financial result for the year was as follows:

	£
Retained profit at 1 January 1998	145,218
Profit for the year after taxation	257,492
Retained profit at 31 December 1998	402,710

No dividend was paid or proposed in the year (1997 £nil).

Directors and their interests

The directors who served during the year are shown below.

M.M. Stuckey	(Chairman)
J.H. Caldwell	
J.H. Wolfenden	
J.M. Wood	
S.P. Philpott	(Appointed 1 April 1998)

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

Subsequent to the year end P.J.C. Francis was appointed a director of the company on 16 September 1999.

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;

Directors' report (continued)

- 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.

Year 2000

The company has implemented a programme of action to deal with the inability of many computer systems and electronic devices to recognise the year 2000 date change. A company wide project team was established in early 1998 to assess the impacts of the date change and to initiate upgrades to existing hardware and software, where appropriate.

The company recognises its dependence on suppliers and customers' systems, and has been working with them to ensure that the year 2000 issue will not adversely affect the service the group provides to its customers. The company has also obtained ITAA 2000 certification which indicates that the company's products will successfully handle year 2000 date conversion without any problems. Most of the costs of the programme form part of the recurring expenditure of the company, and are not identifiable. The board is satisfied that the costs to be incurred on the year 2000 programme in the next financial year will not be material to the future profitability or liquidity of the company.

Auditors

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

Fourth Shift House
11 Worton Drive,
Reading,
Berkshire.
RG2 0LX

By order of the Board,

J.H. Wolfenden
Director

17 September 1999

Auditors' report

Reading

To the Shareholders of Fourth Shift Europe Limited:

We have audited the accounts on pages 4 to 14 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 pages 2 and 3 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

17 September 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	Continuing operations 1998 £	1997 £
Turnover	2	6,654,301	4,798,475
Cost of sales		(3,051,554)	(2,105,095)
Gross profit		3,602,747	2,693,380
Administrative expenses		(3,230,495)	(2,824,588)
Operating profit (loss)		372,252	(131,208)
Interest receivable and similar income		59,831	25,994
Interest payable and similar charges		(25,031)	(5,466)
Profit (loss) on ordinary activities before taxation	3	407,052	(110,680)
Tax on profit on ordinary activities	5	(149,560)	(10,826)
Retained profit (loss) for the year		257,492	(121,506)
Retained profit at the beginning of the year		145,218	266,724
Retained profit at the end of the year		402,710	145,218

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

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

Balance sheet

31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	6	711,608	670,368
Current assets			
Debtors	7	2,236,232	1,919,025
Cash at bank and in hand		826,493	666,525
		3,062,725	2,585,550
Creditors: Amounts falling due within one year	8	(3,202,886)	(2,914,733)
Net current liabilities		(140,161)	(329,183)
Total assets less current liabilities		571,447	341,185
Creditors: Amounts falling due after more than one year	9	(43,737)	(70,967)
Net assets		527,710	270,218
Capital and reserves			
Called-up equity share capital	11	100,000	100,000
Capital redemption reserve	12	25,000	25,000
Profit and loss account	12	402,710	145,218
Equity shareholders' funds		527,710	270,218

J.H. Wolfenden JHWolfenden . Director

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

The accounts were approved by the Board on 17 September 1999

Notes to accounts

31 December 1998

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 have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Tangible fixed assets

Fixed assets are shown at cost less accumulated depreciation and provision for impairment. 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:

Leasehold improvements	Term of lease
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 tax legislation) has been calculated using the liability method. Deferred tax is provided on timing differences that 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.

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 balance sheet date are reported at the rates of exchange prevailing at that date (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 provided in the normal course of business.

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 on a straight-line basis over the period of the maintenance contract.

g) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

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 13.

h) Pension arrangements

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

i) Cash flow statement

The company is exempt from the requirements of Financial Reporting Standard No. 1 (revised) to include a cash flow statement as part of its accounts because it is a wholly owned subsidiary of Fourth Shift Corporation, which has prepared consolidated financial statements which include the accounts of the company for the year and are available to the public from the address given on page 14.

j) Related party transactions

Under the provisions of Financial Reporting Standard No 8, the company is not required to disclose details of certain related party transactions as it is a wholly owned subsidiary, and the consolidated financial statements of the immediate parent company in which the company's results are included are available to the public.

2 Segment information

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.

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 £	1997 £
Depreciation on owned tangible fixed assets	162,785	184,321
Depreciation on assets held under finance leases and hire purchase contracts	55,109	35,834
Operating lease rentals		
- motor vehicles	150,319	118,324
- property	261,309	225,167
Auditors' remuneration		
- audit fees	17,000	16,000
- other	5,000	5,000

4 Staff costs

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

	1998 £	1997 £
Employee costs during the year amounted to:		
Wages and salaries	2,167,106	1,502,888
Social security costs	220,006	152,680
Other pension costs	28,852	22,460
	2,415,964	1,678,028

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

	1998 Number	1997 Number
Consultancy	16	11
Support	11	10
Sales and marketing	18	18
Development	1	1
Administration	8	8
	54	48

4 Staff costs (continued)

	1998	1997
	£	£
Directors' emoluments	247,202	87,282
Company contributions to money purchase pension schemes	3,980	2,243
	251,182	89,525

The highest paid director received emoluments (excluding pension contributions) of £176,125 (1997: £87,282).

The amount of company contributions to money purchase pension schemes in respect of the highest paid director were £2,743 (1997: £2,243).

The number of directors who were members of pension schemes to which the company paid contributions was as follows:

	1998	1997
	Number	Number
Money purchase schemes	2	1

5 Tax on profit on ordinary activities

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

	1998	1997
	£	£
Corporation tax at 31%	149,560	-
Adjustment in respect of prior years current taxation	-	(6,824)
Adjustment in respect of prior years deferred taxation	-	17,650
	149,560	10,826

6 Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer Equipment £	Total £
Cost				
Beginning of year	511,144	183,353	756,778	1,451,275
Additions	54,439	78,833	125,862	259,134
End of year	565,583	262,186	882,640	1,710,409
Depreciation				
Beginning of year	74,858	69,368	636,681	780,907
Charge	68,315	24,855	124,724	217,894
End of year	143,173	94,223	761,405	998,801
Net book value				
Beginning of year	436,286	113,985	120,097	670,368
End of year	422,410	167,963	121,235	711,608

The net book value of fixed assets includes an amount of £113,572 (1997 - £72,257) in respect of assets held under finance leases and hire purchase contracts.

7 Debtors

	1998 £	1997 £
Amounts falling due within one year:		
Trade debtors	1,709,431	1,529,911
Amounts owed by another group company	331,839	181,477
Other debtors	44,506	81,873
Prepayments and accrued income	150,456	125,764
	2,236,232	1,919,025

The amounts owed by another group company represents amounts receivable from Fourth Shift SA (Proprietary) Limited, a company registered in South Africa. Payment of these amounts is subject to a subordination agreement between the two parties, under which claims of other creditors rank in preference to the amounts payable to Fourth Shift Europe Limited.

Notes to accounts (continued)

8 Creditors: Amounts falling due within one year

	1998	1997
	£	£
Obligations under finance leases	49,473	12,418
Trade creditors	350,177	474,597
Amounts owed to parent undertaking	459,794	565,809
Other creditors		
- UK corporation tax payable	143,711	-
- VAT	52,322	127,569
- social security and PAYE	81,301	68,066
Accruals and deferred income	2,066,108	1,666,274
	3,202,886	2,914,733

9 Creditors: Amounts falling due after more than one year

	1998	1997
	£	£
Obligations under finance leases	43,737	70,967

The obligations under finance leases are all due within five years.

10 Reconciliation of movements in shareholders' funds

	1998	1997
	£	£
Profit (loss) for the financial year	257,492	(121,506)
Opening shareholders' funds	270,218	391,724
Closing shareholders' funds	527,710	270,218

11 Called-up equity share capital

	1998 £	1997 £
Authorised		
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
	139,000	139,000
Allotted, called-up and fully-paid		
75,000 'A' ordinary shares of £1 each	75,000	75,000
25,000 'B' ordinary shares of £1 each	25,000	25,000
	100,000	100,000

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.

12 Reserves

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

	1998 £	1997 £
Distributable		
- profit and loss account	402,710	145,218
Non-distributable		
- capital redemption reserve	25,000	25,000
Total reserves	427,710	170,218

	Capital redemption reserve £	Profit and loss account £	Total £
Beginning of year	25,000	145,218	170,218
Transfer from profit and loss account	-	257,492	227,944
End of year	25,000	402,710	398,162

13 Guarantees and other financial commitments

a) Lease commitments

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

	Property £	Motor vehicles £
1998		
Operating leases which expire		
- within 1 year	1,000	29,716
- in 1-5 years	14,096	109,129
- after 5 years	238,080	-
	253,176	138,845
1997		
Operating leases which expire		
- within 1 year	9,133	10,581
- in 1-5 years	14,096	107,599
- after 5 years	238,080	-
	261,309	118,180

As from 24 June 1996, the company leased certain land and buildings on an operating lease expiring on 23 June 2006. The annual payment in respect of this lease to the next rent review is £238,080. 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 1998 (1997 - £nil).

14 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.

15 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 Europe 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 Two Meridian Crossings, Minneapolis, USA, MN 55423-3962.