

Fourth Shift Europe Limited

Accounts for the year ended 31 December 1999
together with directors' and auditors' reports

Registered number: 2579692

Directors' report

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 1999.

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 loss on ordinary activities after taxation of £98,367 (1998 – Profit £257,494).

Results and dividends

The financial result for the year was as follows:

	£
Retained profit at 1 January 1999	402,710
Loss for the year after taxation	(98,367)
Retained profit at 31 December 1999	<u>304,343</u>

No dividend was paid or proposed in the year (1998 £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
P J C Francis (Appointed 16 September 1999)

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

Auditors

The directors will place a resolution before the annual general meeting to re-appoint 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

Date 31 October 2000

To the Shareholders of Fourth Shift Europe Limited:

We have audited the accounts on pages 4 to 13 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 the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

Date 31 October 2000

Profit and loss account

For the year ended 31 December 1999

	Notes	Continuing operations	
		1999 £	1998 £
Turnover	2	7,389,516	6,654,301
Cost of sales		(3,853,165)	(3,051,554)
Gross profit		3,536,351	3,602,747
Administrative expenses		(3,585,892)	(3,230,495)
Operating (loss) profit		(49,541)	372,252
Interest receivable and similar income		26,741	59,831
Interest payable and similar charges		(52,452)	(25,031)
(Loss) profit on ordinary activities before taxation	3	(75,252)	407,052
Tax on (loss) profit on ordinary activities	5	(23,115)	(149,560)
Retained (loss) profit for the year		(98,367)	257,492
Retained profit at the beginning of the year		402,710	145,218
Retained profit at the end of the year		304,343	402,710

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

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

Balance sheet
31 December 1999

	Notes	1999 £	1998 £
Fixed assets			
Tangible assets	6	603,316	711,608
Current assets			
Debtors	7	3,540,226	2,236,232
Cash at bank and in hand		795,553	826,493
		4,335,779	3,062,725
Creditors: Amounts falling due within one year	8	(4,490,794)	(3,202,886)
Net current liabilities		(155,015)	(140,161)
Total assets less current liabilities		448,301	571,447
Creditors: Amounts falling due after more than one year	9	(18,958)	(43,737)
Net assets		429,343	527,710
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	304,343	402,710
Equity shareholders' funds		429,343	527,710


J.H. Wolfenden

Director

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

The accounts were approved by the Board on 31 October 2000

Notes to accounts

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.

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 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, rising to 5% based on services and level within the company.

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 12.

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.

Notes to accounts (continued)

3 (Loss) profit on ordinary activities before taxation

(Loss) profit on ordinary activities before taxation is stated after charging:

	1999 £	1998 £
Depreciation on owned tangible fixed assets	172,338	162,785
Depreciation on assets held under finance leases and hire purchase contracts	34,634	55,109
Operating lease rentals		
- motor vehicles	138,845	150,319
- property	253,176	261,309
Auditors' remuneration		
- audit fees	17,000	17,000
- other	8,000	5,000
	<u> </u>	<u> </u>

4 Staff costs

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

	1999 £	1998 £
Employee costs during the year amounted to:		
Wages and salaries	2,777,213	2,167,106
Social security costs	298,637	220,006
Other pension costs	54,416	28,852
	<u>3,130,266</u>	<u>2,415,964</u>

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

	1999 Number	1998 Number
Consultancy	20	16
Support	17	11
Sales and marketing	18	18
Development	4	1
Administration	12	8
	<u>71</u>	<u>54</u>

Notes to accounts (continued)

4 Staff costs (continued)

	1999 £	1998 £
Directors' emoluments	272,340	247,202
Company contributions to money purchase pension schemes	8,500	3,980
	<u>280,840</u>	<u>251,182</u>

The highest paid director received emoluments (excluding pension contributions) of £127,402 (1998: £176,125).

The amount of company contributions to money purchase pension schemes in respect of the highest paid director were £5,000 (1998: £2,743).

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

	1999 Number	1998 Number
Money purchase schemes	<u>2</u>	<u>2</u>

5 Tax on (loss) profit on ordinary activities

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

	1999 £	1998 £
Corporation tax	<u>23,115</u>	<u>149,560</u>

Notes to accounts (continued)

6 Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer Equipment £	Total £
Cost				
Beginning of year	565,583	262,186	882,640	1,710,409
Additions	4,055	28,140	66,585	98,680
End of year	<u>569,638</u>	<u>290,226</u>	<u>949,225</u>	<u>1,809,089</u>
Depreciation				
Beginning of year	143,173	94,223	761,405	998,801
Charge	75,841	39,404	91,727	206,972
End of year	<u>219,014</u>	<u>133,627</u>	<u>853,132</u>	<u>1,205,773</u>
Net book value				
Beginning of year	<u>422,410</u>	<u>167,963</u>	<u>121,235</u>	<u>711,608</u>
End of year	<u>350,624</u>	<u>156,599</u>	<u>96,093</u>	<u>603,316</u>

The net book value of fixed assets includes an amount of £78,938 (1998 - £113,572) in respect of assets held under finance leases and hire purchase contracts.

7 Debtors

	1999 £	1998 £
Amounts falling due within one year:		
Trade debtors	2,608,787	1,709,431
Amounts owed by another group company	488,034	331,839
Other debtors	35,509	44,506
Prepayments and accrued income	385,380	150,456
UK corporation tax recoverable	22,516	-
	<u>3,540,226</u>	<u>2,236,232</u>

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

	1999 £	1998 £
Obligations under finance leases	23,479	49,473
Trade creditors	433,442	350,177
Amounts owed to parent undertaking	1,375,108	459,794
Other creditors		
- UK corporation tax payable	-	143,711
- VAT	216,070	52,322
- social security and PAYE	96,998	81,301
Accruals and deferred income	2,345,697	2,066,108
	<u>4,490,794</u>	<u>3,202,886</u>

9 Creditors: Amounts falling due after more than one year

	1999 £	1998 £
Obligations under finance leases	<u>18,958</u>	<u>43,737</u>

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

10 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
(Loss) profit for the financial year	(98,367)	257,492
Opening shareholders' funds	<u>527,710</u>	<u>270,218</u>
Closing shareholders' funds	<u>429,343</u>	<u>527,710</u>

Notes to accounts (continued)

11 Called-up equity share capital

	1999 £	1998 £
<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.

12 Reserves

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

	1999 £	1998 £
Distributable		
- profit and loss account	304,343	402,710
Non-distributable		
- capital redemption reserve	25,000	25,000
Total reserves	<u>329,343</u>	<u>427,710</u>

	Total £	Capital redemption reserve £	Profit and loss account £
Beginning of year	427,710	25,000	402,710
Loss for the year	(98,367)	-	(98,367)
End of year	<u>329,343</u>	<u>25,000</u>	<u>304,343</u>

Notes to accounts (continued)

13 Guarantees and other financial commitments

a) Lease commitments

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

	Property £	Motor vehicles £
1999		
Operating leases which expire		
- within 1 year	1,000	25,348
- in 1-5 years	14,096	195,361
- after 5 years	238,080	-
	<u>253,176</u>	<u>220,709</u>
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	-
	<u>253,176</u>	<u>138,845</u>

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 1999 (1998 - £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.