

Fourth Shift Europe Limited

Accounts for the year ended 31 December 1997
together with directors' and auditors' reports

Registered number: 2579692



Directors' report

For the year ended 31 December 1997

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 1997.

Principal activities and business review

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 £121,506 (1996 - profit of £95,130).

Turnover was broadly consistent with prior year.

Results and dividends

The financial result for the year was as follows:

	£
Retained profit at 1 January 1997	266,724
Loss for the year after taxation	(121,506)
Retained profit at 31 December 1997	<u>145,218</u>

No dividend was paid or proposed in the year (1996 £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

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

Subsequent to the year end on 1 April 1998, S.P. Philpott was appointed as a director of the company.

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.

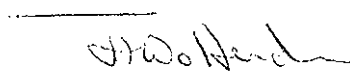
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of 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 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

28 January 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 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. 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 1997 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

28 January 1999

Profit and loss account

For the year ended 31 December 1997

		Continuing Operations	
	Notes	1997 £	1996 £
Turnover	2	4,798,475	4,339,651
Cost of sales		(2,105,095)	(2,085,781)
Gross profit		2,693,380	2,253,870
Administrative expenses		(2,824,588)	(2,108,097)
Operating (loss) profit		(131,208)	145,773
Interest receivable and similar income		25,994	35,481
Interest payable and similar charges		(5,466)	-
(Loss) profit on ordinary activities before taxation	3	(110,680)	181,254
Tax on (loss) profit on ordinary activities	5	(10,826)	(86,124)
Retained (loss) profit for the year		(121,506)	95,130
Retained profit at the beginning of the year		266,724	171,594
Retained profit at the end of the year		145,218	266,724

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

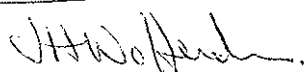
The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	6	670,368	692,981
Current assets			
Debtors	7	1,919,025	1,582,065
Cash at bank and in hand		666,525	510,709
		2,585,550	2,092,774
Creditors: Amounts falling due within one year	8	(2,914,733)	(2,375,179)
Net current liabilities		(329,183)	(282,405)
Total assets less current liabilities		341,185	410,576
Creditors: Amounts falling due after more than one year	9	(70,967)	(18,852)
Net assets		270,218	391,724
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	145,218	266,724
Equity shareholders' funds		270,218	391,724

Approved by the Board on 28 January 1999 and signed on its behalf



J.H. Wolfenden

Director

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

Notes to accounts

31 December 1997

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. 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. 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 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 14.

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.

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:

	1997 £	1996 £
Depreciation on owned tangible fixed assets	184,321	140,252
Depreciation on assets held under finance leases and hire purchase contracts	35,834	5,788
Operating lease rentals		
- motor vehicles	118,324	118,082
- property	225,167	184,715
Auditors' remuneration		
- audit fees	16,000	19,000
- other	5,000	17,170
	<hr/>	<hr/>

4 Staff costs

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

	1997 £	1996 £
Employee costs during the year amounted to:		
Wages and salaries	1,502,888	986,392
Social security costs	152,680	133,832
Other pension costs	22,460	22,660
	<hr/>	<hr/>
	1,678,028	1,142,884
	<hr/>	<hr/>

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

	1997 Number	1996 Number
Consultancy	11	8
Support	10	8
Sales and marketing	18	12
Development	1	4
Administration	8	6
	<hr/>	<hr/>
	48	38
	<hr/>	<hr/>

Notes to accounts (continued)

4 Staff costs (continued)

Aggregate directors' remuneration was as follows:

	1997 £	1996 £
Emoluments	87,282	164,337
Company contributions to money purchase schemes	<u>2,243</u>	<u>1,875</u>

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

	1997 Number	1996 Number
Money purchase schemes	<u>1</u>	<u>1</u>

5 Tax on (loss) profit on ordinary activities

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

	1997 £	1996 £
Corporation tax at 31.5% (1996 – 33%)	-	86,124
Adjustment in respect of prior years current taxation	(6,824)	-
Adjustment in respect of prior years deferred taxation	<u>17,650</u>	<u>-</u>
	<u>10,826</u>	<u>86,124</u>

Notes to accounts (continued)

6 Tangible fixed assets

	Leasehold improvements £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
Beginning of year	442,227	163,016	648,490	1,253,733
Additions	68,917	20,337	108,288	197,542
End of year	511,144	183,353	756,778	1,451,275
Depreciation				
Beginning of year	11,648	51,912	497,192	560,752
Charge	63,210	17,456	139,489	220,155
End of year	74,858	69,368	636,681	780,907
Net book value				
Beginning of year	430,579	111,104	151,298	692,981
End of year	436,286	113,985	120,097	670,368

The cost of fixed assets includes an amount of £108,091 (1996 - £52,091) in respect of assets held under finance leases and hire purchase contracts. Depreciation of £30,045 (1996 - £5,788) was charged in respect of these assets during the year.

7 Debtors

	1997 £	1996 £
Amounts falling due within one year:		
Trade debtors	1,529,911	1,373,853
Amounts owed by another group company	181,477	101,699
Other debtors	81,873	24,789
Prepayments and accrued income	125,764	64,074
Amounts falling due after one year:	1,919,025	1,564,415
Deferred tax (see note 10)	-	17,650
	1,919,025	1,582,065

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 are 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

	1997 £	1996 £
Obligations under finance leases	12,418	15,082
Trade creditors	474,597	347,855
Amounts owed to parent undertaking	565,809	355,239
Other creditors		
- UK corporation tax payable	-	80,498
- VAT	127,569	26,892
- social security and PAYE	68,066	48,550
Accruals and deferred income	1,666,274	1,501,063
	<u>2,914,733</u>	<u>2,375,179</u>

9 Creditors: Amounts falling due after more than one year

	1997 £	1996 £
Obligations under finance leases	<u>70,967</u>	<u>18,852</u>

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

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.

	1997 £	1996 £
Excess of tax allowances over book depreciation of fixed assets	<u>-</u>	<u>17,650</u>

The deferred tax asset was included in debtors falling due after one year in the prior year. The total value of the deferred tax asset not recognised is £41,346 (1996 - £16,597).

11 Reconciliation of movements in shareholders' funds

	1997 £	1996 £
(Loss) profit for the financial year	(121,506)	95,130
Opening shareholders' funds	<u>391,724</u>	<u>296,594</u>
Closing shareholders' funds	<u>270,218</u>	<u>391,724</u>

Notes to accounts (continued)

12 Called-up share capital

	1997 £	1996 £
<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.

13 Reserves

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

	1997 £	1996 £
<i>Distributable</i>		
- profit and loss account	145,218	266,724
<i>Non-distributable</i>		
- capital redemption reserve	<u>25,000</u>	<u>25,000</u>
Total reserves	<u>170,218</u>	<u>291,724</u>

Notes to accounts (continued)

13 Reserves (continued)

	Capital redemption reserve £	Profit and loss account £	Total £
Beginning of year	25,000	266,724	291,724
Transfer from profit and loss account	-	(121,506)	(121,506)
End of year	<u>25,000</u>	<u>145,218</u>	<u>170,218</u>

14 Guarantees and other financial commitments

a) Lease commitments

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

	Land and buildings £	Motor vehicles £
1997		
Operating leases which expire		
- within 1 year	9,133	10,581
- within 2-5 years	14,096	107,599
- after 5 years	<u>238,080</u>	<u>-</u>
	<u>261,309</u>	<u>118,180</u>
1996		
Operating leases which expire		
- within 1 year	-	43,773
- within 2-5 years	-	70,430
- after 5 years	<u>238,080</u>	<u>-</u>
	<u>238,080</u>	<u>114,203</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 1997 (1996 - £nil).

Notes to accounts (continued)

15 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.

16 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 7900 International Drive, Suite 450, Minneapolis, Minnesota, USA.