2642975

Sapphire International Limited

Report and Financial Statements

Year Ended

31 December 1998

BDO

BDO Stoy Hayward
Chartered Accountants

SAPPHIRE INTERNATIONAL LIMITED

Annual report and financial statements for the year ended 31 December 1998

Contents

Directors

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Director

S R Page

Secretary and registered office

K R B (Secretaries) Limited, 13-19 Curtain Road, London, EC2A 3LT.

Company number

2642975

Auditors

BDO Stoy Hayward, 8 Baker Street, London, W1M 1DA.

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SAPPHIRE INTERNATIONAL LIMITED

Report of the director for the year ended 31 December 1998

The director presents his report together with the audited financial statements for the year ended 31 December 1998.

Results and dividends

The loss for the year, after taxation amounted to £222,000 (1997 - profit of £22,000). The directors do not recommend the payment of a dividend.

Principal activities, review of business and future developments

The company's principal activities during the year were the supply of packaged software and associated services to the business and professional sectors of the microcomputer market.

During the year the company acquired the assets and trade of its wholly owned subsidiary, Technology Arts Information Limited, who provide consultancy services to the microcomputer market. The results from this trade have been shown as an acquisition on the face of the profit and loss account.

Year 2000

The director has considered the impact of Year 2000 on the company's operations. He does not believe that a material cost will arise in ensuring compliance in this respect beyond that of normal year on year updating.

Director

The director of the company during the year was:

S R Page

According to the register kept by the company pursuant to Section 325 of the Companies Act 1985, the director had the following interests in the share capital of group companies:

Shares	**1998**	**1997**
S R Page		
- Sapphire Group Limited - A ordinary shares	2,746,851	-
- Triangle Software International Inc.	-	2,225,949

Charitable contributions

During the year, the company made charitable donations of £300 (1997 - £Nil).

Director's responsibilities

Company law requires the director to prepare financial statements 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 financial statements, the director is 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 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 director is 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. He is 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

BDO Stoy Hayward, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

K R B (Secretaries) Limited

Secretary

Date 3 June 1999

SAPPHIRE INTERNATIONAL LIMITED

Report of the auditors

To the shareholders of Sapphire International Limited

We have audited the financial statements on pages 4 to 16 which have been prepared under 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 financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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.

Adverse opinion

A principal asset of the company is an amount of £1,120,486 due from a fellow subsidiary undertaking which has net external liabilities. In our opinion the company is unlikely to receive repayment of this debt and full provision of £1,120,486 is required to reduce this balance to its net realisable value.

In view of the effect of the failure to make the provision referred to above, in our opinion the financial statements do not give a true and fair view of the state of the company's affairs at 31 December 1998 and of its result for the year then ended.

In all other respects the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward

BDO STOY HAYWARD
Chartered Accountants
and Registered Auditors
London

3 June 1999

SAPPHIRE INTERNATIONAL LIMITED

Profit and loss account for the year ended 31 December 1998

		Continuing activities			
		Acquisitions		Total	
	Note	1998	1998	1998	1997
		£'000	£'000	£'000	£'000
Turnover	2	781	1,210	1,991	2,188
Cost of sales		672	773	1,445	1,152
Gross profit		109	437	546	1,036
Distribution costs		(44)	(283)	(327)	(446)
Administrative expenses		(135)	(464)	(599)	(601)
Other operating income		-	144	144	-
Operating loss	3	(70)	(166)	(236)	(11)
Profit on disposal of tangible assets				-	4
Profit on disposal of goodwill				-	28
Interest receivable				35	-
Interest payable	6			(21)	(19)
(Loss)/profit on ordinary activities before taxation				(222)	2
Taxation	7			-	(20)
(Loss)/profit for the financial year	16			(222)	22

There were no movements in shareholders' funds apart from the profit for the year.
All amounts relate to continuing activities.
All recognised gains and losses are included in the profit and loss account.

The notes on pages 6 to 16 form part of these financial statements.

SAPPHIRE INTERNATIONAL LIMITED

Balance sheet at 31 December 1998

	Note	1998		1997	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	8a	215		42	
Tangible assets	8b	171		-	
Investments	8c	101		166	
		487		208	
Current assets					
Stocks	9	-		5	
Debtors due within one year	10	1,229		490	
Debtors due after one year	10	1,120		1,147	
Cash at bank and in hand		23		4	
		2,372		1,646	
Creditors: amounts falling due within one year	11	1,717		570	
Net current assets			655		1,076
Total assets less current liabilities			1,142		1,284
Creditors: amounts falling due after more than one year	12		209		129
Net assets			933		1,155
Capital and reserves					
Called up share capital	14		137		137
Share premium account	16		241		241
Profit and loss account	16		555		777
Shareholder's funds - equity			933		1,155

The financial statements were approved by the Board on 3 June 1999

S R Page
Director

The notes on pages 6 to 16 form part of these financial statements.

1 Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Group accounts

The company has taken advantage of the exemption conferred by Section 248 of the Companies Act 1985 not to produce consolidated accounts as it forms part of a larger group, whose parent company, Sapphire Group Limited, has produced consolidated accounts. Therefore these financial statements contain information about Sapphire International Limited as an individual company and do not contain consolidated financial information as the parent of a group

Investments

Investments are stated at cost less any provision for permanent diminution in value.

Goodwill

Goodwill arising on acquisition of businesses is the difference between the fair value of the consideration paid and the fair value of the net assets acquired except for goodwill recognised as explained in note 8c. Goodwill has been amortised through the profit and loss account over the director's estimate of its useful economic life, which is 10 years.

Tangible fixed assets and depreciation

Motor vehicles, equipment and leasehold improvements are stated at cost net of accumulated depreciation and amortisation. Depreciation and amortisation is computed on a straight-line method at rates intended to write-off the cost of the assets less their estimated residual values over the assets' estimated useful lives as follows:

Leasehold improvements	- 4 years
Furniture and fittings	- 4 years
Computer equipment	- 3 years
Motor vehicles	- 4 years

Revenue recognition

Revenue is recognised at the time of shipment, net of provision for estimated future returns. The estimated costs for support during the warranty period are included in cost of revenues. Revenue from maintenance contracts is recognised over the life of the contract.

1 Accounting policies *(Continued)*

Stock

Stock is valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing difference will reverse.

Foreign currencies

Transactions in foreign currencies are recorded at rates of exchange prevailing at the time of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account on a straight line basis over the period of the lease.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term, even if the payments are not made on such a basis. Benefits received as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term.

Pensions

The company makes contributions into a Group Personal Pension Scheme. Contributions are charged to the profit and loss account as they become payable.

Royalties

Royalties are charged to the profit and loss account at a percentage of software sales in accordance with terms of the royalties agreement.

2 Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax and earned predominantly in the United Kingdom.

	1998 £'000	1997 £'000
Turnover		
Computer software goods and related training services	1,165	1,788
Consultancy services	826	400
	1,991	2,188

3 Operating loss

This is stated after charging:

	1998 £'000	1997 £'000
Auditors' remuneration - audit services	20	12
Depreciation of owned fixed assets	23	44
Depreciation of assets held under finance leases and hire purchase contracts	21	9
Amortisation of goodwill	14	-
Provision for permanent diminution in value of goodwill	29	-
Exchange loss	-	1
Operating lease rentals:		
Motor vehicles	37	71
Land and buildings	59	180

4 Director's remuneration

	1998 £'000	1997 £'000
Director's emoluments	109	131

Pension contributions of £6,000 (1997 - £8,000) were made in respect of the director.

5 Staff costs

	1998 £'000	1997 £'000
Staff costs, including director's emoluments, were as follows:		
Wages and salaries	862	856
Social security costs	84	84
Other pension costs	27	30
Private health insurance	7	4
	980	974

The average weekly number of employees, including executive directors, during the year was as follows:	Number	Number
Sales and marketing	1	7
Support, training and consultancy	28	16
Finance, administration and management	5	10
	34	33

6 Interest payable

	£'000	£'000
Bank loans and overdrafts repayable within five years	16	18
Finance charges payable under finance leases and hire purchase contracts	5	1
	21	19

7 Taxation

Charge for year	-	3
Over provision in respect of prior years	-	(23)
	-	(20)

8a Intangible assets

	Goodwill £'000
Cost	
At 1 January 1998	-
Additions	110
Reclassification from investments (see note 8c)	149
Permanent diminution in value	(29)
At 31 December 1998	230
Amortisation	
At 1 January 1998	-
Provision for year	15
At 31 December 1998	15
Net book value	
At 31 December 1998	215
At 1 January 1998	-

8b Tangible assets

	Leasehold improvements £'000	Furniture and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
At 1 January 1998	6	21	155	-	182
Additions	-	7	91	75	173
At 31 December 1998	6	28	246	75	355
Depreciation					
At 1 January 1998	-	17	123	-	140
Provided for the year	2	2	30	10	44
At 31 December 1998	2	19	153	10	184
Net book value					
At 31 December 1998	4	9	93	65	171
At 31 December 1997	6	4	32	-	42

The net book value of tangible fixed assets includes an amount of £123,000 (1997 - £Nil) in respect of assets held under finance leases. The related depreciation charge for the period was £21,000 (1997 - £Nil).

8c Investments

	£'000
At 1 January 1998	165
Additions	85
Reclassification as goodwill	(149)
At 31 December 1998	101

The company's investment represents 100% of the ordinary share capital of Technology Arts Information Limited.

8c Investments *(continued)*

As part of the reorganisation of the group of which the company is a member, the trade and net assets of its subsidiary, Technology Arts Information Limited, were transferred into the company at 1 August 1998. The consideration for this was based on the book value of the subsidiary undertaking's net assets and took no account of goodwill interest in that business. This resulted in an apparent overvaluation of the investment held in the company's books, though there was no overall loss to the group of which the company is parent or the larger group of which it is a member. Schedule 4 to the Companies Act requires that where such overvaluation is expected to be permanent, the investment should be written down accordingly. The director consider that as the substance of the transaction was merely to reorganise the group's operations, such a treatment would fail to give a true and fair view and the diminution in value of the investment has been instead reallocated to goodwill.

The effect on the company's balance sheet of this departure from the requirement of Schedule 4 is to recognise goodwill of £148,911 net of amortisation of £6,204.

9 Stocks

	1998 £'000	1997 £'000
Goods for resale	-	5

10 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	872	303
Amounts owed by group undertakings	216	96
Other debtors	5	13
Amounts recoverable on contracts	55	-
Corporation tax	5	-
ACT recoverable	7	7
Prepayments and accrued income	69	71
	1,229	490
Amounts falling due after one year		
Amounts owed by parent undertaking	-	1,132
Amounts owed by fellow undertaking	1,120	15
	1,120	1,147

11 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank overdraft	93	78
Amounts due to invoice discounting company	-	55
Obligations under finance leases and hire purchase contracts	43	-
Trade creditors	280	147
Amounts due to parent company	564	-
Amounts due to group undertakings	101	-
Corporation tax	18	22
Deferred revenue	113	42
Other taxes and social security costs	142	28
Accruals	266	50
Other creditors	97	148
	1,717	570

Included within accruals is £1,929 (1997 - £4,344) relating to outstanding contributions payable on the pension scheme. The bank overdraft is secured by an unlimited debenture from the company and an all monies guarantee from the parent company, Sapphire Group Limited for £250,000.

12 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Obligations under finance leases and hire purchase contracts	58	-
Other creditors	151	129
	209	129

Other creditors relate to rental commitments on the company's previous premises being repaid at £1,000 per week.

Obligations under finance leases and hire purchase contracts are due as follows:

	£'000
Within one to two years	29
Within two to five years	26
After more than five years	3
	58

13 Deferred taxation

Deferred taxation provided in the accounts and the amounts not provided are as follows:

	1998		1997	
	Provided £'000	Not provided £'000	Provided £'000	Not provided £'000
Accelerated capital allowances	-	16	-	(16)
Short-term timing differences	-	-	-	(1)
Deferred tax asset	-	16	-	(17)

14 Share capital

	Authorised			
	1998 No.	1997 No.	1998 £'000	1997 £'000
£1 ordinary shares	250,000	250,000	250	250

	Allotted, called up and fully paid			
	1998 No.	1997 No.	1998 £'000	1997 £'000
£1 ordinary shares	137,329	137,329	137	137

15 Other financial commitments

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	1998		1997	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	-	25	-	7
Between two to five years	90	19	137	110
	90	34	137	117

16 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Shareholders' funds at 1 January 1998	137	241	777	1,155
Loss for the year	-	-	(222)	(222)
Shareholders' funds at 31 December 1998	137	241	555	933

17 Ultimate parent undertaking and ultimate controlling party

At 31 December 1998 the company's ultimate parent company was Sapphire Group Limited.

18 Cash flow statement

The company has taken advantage of the exemption provided by Financial Reporting Statement 1 (Revised) not to produce a cash flow statement on the grounds that the company is a small company as defined by the Companies Act 1985.

19 Related party transactions

Sine 21 July 1998 the company has taken advantage of the exemption permitted under Financial Reporting Statement 8 not to disclose transactions with group companies on the basis the consolidated financial statements of the parent company are publically available. Balances with group companies are shown in notes 10 and 11.

Prior to the company being acquired by Sapphire Group Limited on 21 July 1998, the company was charged £103,885 in respect of royalties by Sapphire International (Ireland) Limited, a fellow subsidiary. It recharged expenses totalling £86,544 to that company and paid £66,058 of costs on its behalf.

In addition the company paid expenses totalling £23,443 on behalf of Sapphire International Inc, a company in which Stephen Page has an interest.