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THE SAGE GROUP PLC

Report and Accounts 1994

Effective marketing and [illegible]

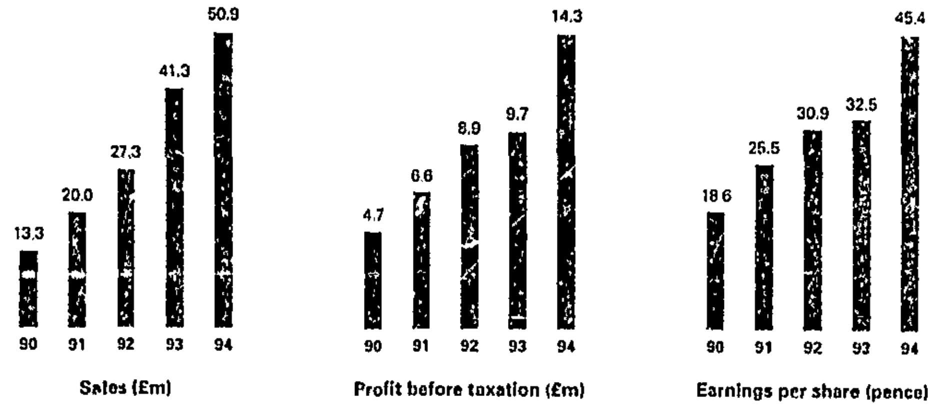
branded accounting [illegible] personal

computers creates volume [illegible]

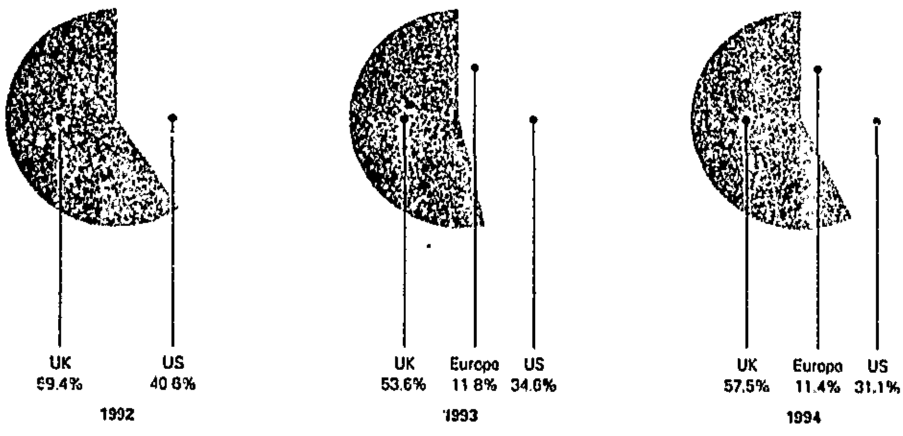
growing installed base [illegible]

related products and [illegible]

succeeded in the [illegible].



Sales (£m) Profit before taxation (£m) Earnings per share (pence)



Group sales by geographic market (£m)

The excellent results achieved for the year to 30 September 1994 represent the ninth year of unbroken growth in turnover, profits and earnings per share and are the result of maintaining a clearly focused business strategy. Our core activity is the marketing of accounting software for personal computers and of related products and services to established customers. Great emphasis is placed on developing the generation of recurring revenues and in the year ended 30 September 1994, sales to existing users grew 17% to reach £22.3 million.

Consistent growth has been achieved both organically and through carefully selected acquisitions in the UK and overseas. Our business generates strong cash flows and they have been used to finance acquisitions which either extend geographic coverage or build on our product range. In the year under review, three such acquisitions were made and, additionally, one small investment.

Results and dividend

Real progress has been made in all key areas of the business, with the improvement in performance seen at the interim stage being well sustained during the second half of the year. Turnover grew by 23% to £50.9 million (1993: £41.3 million); operating profit jumped by 46% to £14.0 million (1993: £9.6 million); profit before tax improved by 48% to £14.3 million (1993: £9.7 million) and earnings per share were up by 40% to 45.4p (1993: 32.5p). These results reflect strong underlying sales growth and, importantly, a return to more familiar levels of profitability.

The directors are proposing a final dividend of 7.26p per share, making a total for the year of 10.91p, an increase of 10%. Subject to shareholders' approval, the final dividend will be paid on 24 February 1995 to shareholders on the register on 26 January 1995.

United Kingdom

In July, Multisoft Financial Systems Limited was acquired for an initial cash consideration of £4 million, bringing to the Group new client server technology, an exposure to the market for larger users and an established customer base of 15,000. Multisoft further extends our portfolio of personal computer software products, and gives us the most comprehensive range in the UK market. Shortly before the year end, Dataform's geographic coverage was extended by the acquisition of Northampton based Venture Business Forms for an initial consideration of £0.75 million. The benefit of this small bolt-on acquisition is already being seen in the form of some interesting new print management contracts for high profile customers.

United States

The purchase of Timeslips in August for an initial cash consideration of £3.3 million is entirely consistent with our acquisition strategy. Timeslips' time-billing and reporting software complements the Group's core accounting products and the international potential of this new product category is demonstrated by existing sales of these products in the UK. Timeslips' management and marketing staff have moved to Dallas, while product development and customer support operations remain near Boston.

Europe

In January 1994 we made a small investment in Extra Software Spa. Based in Madrid, Extra is preparing a *Windows* accounting product for market, and this business should progress as the Spanish economy comes out of recession. In November, after the year end, we made a major investment in France with the purchase of Saari SA for £19.1 million. Saari is the leading French vendor of accounting software and services for personal computers and closely resembles the core Sage business in the UK.

Building and maintaining strong brands is now clearly identified as an important success factor, and Sage owns leading accounting software brands in each of its markets.

Together with CIEL, this move has created a v / strong French group which will provide exciting growth opportunities for the future. Saari's 150,000 users, 4000 dealers and its market leading position have created an excellent basis from which to grow sales and enhance profitability. 40% of the Group's sales will now arise in France.

Management changes

During the year, considerable effort has been invested in developing the management structure to allow for expansion and retain efficient control of all our businesses. Group management has been strengthened with the appointment of a new senior member of the finance team whose principal role will be to monitor performance of the operating subsidiaries. Our company secretary, Mr Peter Egerton has retired for health reasons and is replaced by Mr Rupert Wyndham, who has many years of public company experience.

In the USA a decision was taken to focus senior management control of all our American businesses at Dallas under the control of Kevin Howe, who heads the Group's USA operations, with each of the three operating subsidiaries having a product line manager with Vice President status to manage day-to-day tivities.

In the UK, a new marketing director at Sagesoft has been appointed from within. The marketing function has been strengthened and re-structured along product lines to reflect the growing complexity of the business.

When we announced the Saari acquisition I stated that the recruitment of a new chief executive would have a high priority, and in December M. Pierre-Yves Morlet, founder and chief executive of CIEL, was promoted to this position. In addition to his eight years in the software industry with CIEL, M. Morlet previously occupied financial management positions with Dow Chemicals, General Electric and the Verbatim division of Eastman Kodak. A replacement for M. Morlet at CIEL is being sought.

Industry Issues

The personal computing industry is very dynamic and characterised by rapid change. As it evolves those key issues likely to affect long term prospects are becoming clearer. Building and maintaining strong brands is now clearly identified as an important success factor and Sage owns leading brands in the accounting software field. Those companies who, like Sage, have built strong post-sales activities are now reaping the benefits in above average earnings growth, and this is an area of our business which consistently receives strong focus in order to maximise all such opportunities. The industry is passing through its most significant technological advance for ten years as Microsoft's *Windows* environment becomes the dominant operating system for personal computers. The need to have software applications fully compatible with *Windows* is now crucial to future success. All key Sage product ranges are now available for *Windows*, and have already achieved market success. Being active in the American market is very important to us in maintaining a technological lead, which gives a strong competitive advantage in all other markets.

Outlook

The year under review was our most successful ever with strong organic growth matched by improved profitability and strong cash flow. In recent months we have made great strides with our acquisition strategy, adding further significant potential to sustain future growth. Trading in the first quarter of the new financial year has been maintained at satisfactory levels and ahead of internal forecasts, and I am confident that 1995 will produce a good result for the enlarged Group.

A D Goldman, MBE
Chairman

Substantial advances were made in the UK business during 1994 with all core activities showing excellent growth in a trading environment still characterised by economic uncertainty. On a turnover of £29.3 million, record operating profits of £11.1 million were achieved after continuing to invest in products and services which will add potential to sustain future organic growth. The acquisition of Multisoft Financial Systems Limited, which extends our portfolio of PC accounting software products, and Venture Business Forms, which gives a wider geographic coverage to Dataform's print management activities, were additional important investments within the UK market.

Sage's leading position in the UK PC accounting software market was further emphasised with a growth in software revenues of 27%. This increase was essentially volume related, and demonstrates the effectiveness of strong marketing and distribution combined with an unrivalled portfolio of high quality products.

Sales of the more expensive Sovereign modular accounting system have been particularly impressive with a growth in revenues of 34%, and this product range now accounts for 34% of Sage software sales to new users. To ensure its continued position as a market sector leader, a new *Windows* version will be launched during 1995, which will be fully compatible with the existing DOS system.

Sterling continued to maintain its dominance in the single user market with growth in sales revenue of 20% which, with no price increases during the year, was entirely volume related. This advance is particularly significant, as the Sterling user base is one of the stronger generators of high quality, recurring revenues.

During the year our association with Microsoft moved from purely technical collaboration, to a more commercially driven relationship involving a number of highly successful joint seminars and roadshows targeted at value added resellers (VAR's), the accounting profession and end users.

Our marketing initiatives have continued to focus on brand building and lead generation. In addition, emphasis has been placed upon providing support to our resellers, by demonstrating to them the profit opportunities in adding value to Sage products using software tools created by Sage. Moreover, this value-added strategy distances both the Sovereign and Sterling ranges from products being sold through retail channels, which is a more price sensitive environment.

However, during the year we observed a growing market for low cost, easy-to-use accounting software sold through retail channels. This is a natural development of the SOHO (Small Office/Home Office) market which emerged during 1993, to which we had responded successfully with the launch of Sage Moneywise. To meet this market challenge, Sage Instant Accounting was launched and success in this new market segment has already been realised with over 14,000 copies sold in just six months. Other products will be added during 1995 to consolidate the position of the Instant range within the retail sector.

Providing services to existing users generates approximately half of the revenues of our UK software companies and so we have continued to give the same emphasis to developing these services as to promoting the primary software products.

Sage's leading position in the UK market for PC accounting software was further emphasised with volume related growth in software revenues of 27%.

Investment in the training of technical support staff and further investment in IT systems enabled the customer support department to process some 650,000 telephone calls during the year with 84% of callers' queries satisfactorily resolved on the first call. Providing such a high quality service to software users has resulted in growth of 39% by value in the sale of support contracts.

Marketing of Sage business forms operates in a much more competitive environment. Nevertheless, stationery sales grew by 12% in the period as a result of improved direct marketing and the launch of new products and services earlier in the year. Further progress in this part of our business is expected this year.

Outsourcing of print management by large companies and the associated logistics of warehousing and distribution are two high growth business areas which the Group services through its Dataform subsidiary. In 1994 Dataform produced year-on-year sales growth of 27%. Development of existing 'blue chip' accounts contributed to this revenue growth and additionally a number of new key accounts were added to the portfolio. We intend to improve Dataform's geographic coverage and an important step towards this objective was the acquisition in September of Northampton based Venture Business Forms. This has not only improved coverage but has also brought a number of valuable new print management contracts for high profile clients. Further strategic acquisitions will be pursued until we achieve full national coverage for this increasingly important part of our business. This year too, we completed a 40,000 sq ft warehouse and distribution centre which will be controlled by a state-of-the-art computer logistics system to deliver a high quality service to our clients.

In the latter part of 1993 a new division was created to sell Telemagic contact management software with the aim of maximising the sales potential in the UK. With effective promotions and a successful dealer recruitment programme revenues of nearly £700,000 were achieved in the first year. We anticipate further progress this year.

The strategy of developing and expanding dealer channels for software sales will remain a key objective for the DacEasy business.

The significant improvement in profitability from our USA businesses demonstrates the ability of local management to deal effectively and promptly with the issues and problems that were evident in 1993. In what is still a fiercely competitive market place, creditable operating margins of 14% were achieved, generating operating profit of £2.3 million on turnover of £15.8 million.

During 1993 the PC accounting software market saw a rapid move to *Windows* based applications. DacEasy successfully launched its *Windows* accounts product during the autumn, and this has done much to stimulate revenues in both retail and wholesale distribution channels. The launch of the *Windows* product provided the impetus for DacEasy to extend its marketing strategy to include carefully targeted direct marketing to the consumer and by selling additional modules of software to its installed base. Even more importantly, it embarked on a plan to expand its distribution channels primarily through recruitment of small value added resellers and accounting consultants. This not only helped to increase software revenues by 14%, but in addition, higher prices were achieved by selling more software direct as well as through the expanded dealer channels. The strategy of developing and expanding dealer channels for software sales will remain a key objective for the DacEasy business.

The reduced overhead structure implemented at the beginning of the period did allow for a level of investment in new products to provide growth in future years. The development of the next generation of accounting software is now well underway, and the launch of these new "state of the art" accounting products will take place towards the end of 1995. Furthermore, the design of the new products will ensure that much of the work now being done in Dallas will be transferable to the UK. This will help us to maintain a strong position in both markets.

Database marketing to the installed base continues to be a flourishing activity at DacEasy with the sales of forms, product upgrades and support contracts creating significant recurring revenues for the business. In particular, development of the forms activity since Sage acquired the business means that it now accounts for 32% of total sales.

For the Telemagic business the year started with the launch of its new *Windows* product, a revised infrastructure and a new management team tasked to reduce the significant losses incurred during 1993. Revenue growth of 4% produced a break-even situation after investing in a marketing strategy that included broadening the reseller base and also intensive training to existing dealers who were more familiar with selling DOS based products rather than *Windows*.

As the year progressed it became evident that it would be commercially sensible to centralise the Telemagic operational activities including sales and marketing at DacEasy's headquarters in Dallas, and effectively to run Telemagic as a product line within the USA activities. The integration was successfully completed in July and, under a revised management structure, a new product line manager was appointed in October.

To establish this new product range and to continue the brand and distribution building required at this stage of CIEL's development, 21% of revenues were invested in marketing.

In what continued to be difficult economic conditions in the French market, CIEL produced revenue growth of 19%. This was helped by the launch in the early part of the year of a range of *Windows* accounting products to complement the existing DOS products. To establish this new product range and to continue the brand and distribution building required at this stage of CIEL's development, 21% of revenues were invested in marketing.

As with other Group companies, CIEL has been well focused on developing sales to existing customers and, in particular it has been successful in building revenues from support contracts and software upgrades. Benefiting from the experience of Sage's USA and UK operations, CIEL has significantly improved its customer support business to produce over £1 million of revenue in the year (1993: £600,000). Also, for the first time CIEL successfully marketed a software upgrade to its user base. This will now become a feature of its annual marketing programme.

Paul Walker
Chief Executive

Turnover

In the year ended 30 September 1994, turnover rose to £50.9 million (1993: £41.3 million) representing an increase of 23%. All of the businesses achieved sales growth and, in particular, UK sales rose 32% to £29.3 million (1993: £22.1 million) reflecting a strong performance at Sagesoft Limited and a full year contribution from Dataform UK.

Profits

Total operating profits were £14.0 million (1993: £9.6 million) giving a margin of 28% (1993: 23%). The increase in profitability resulted from an increased proportion of Group sales coming from the higher margin businesses in the UK along with tight overhead control within the USA businesses.

Total selling and administrative expenses at £26.9 million (1993: £22.9 million) have been contained below the growth of sales, with expenditure control operating effectively throughout the Group. Acquisitions made during the year did not have a significant impact on operating profits due to the relatively short periods of ownership.

Net interest income increased to £0.2 million as strong operating flows resulted in a higher level of cash balances during the year.

The consolidated pre-tax profit in the year to 30 September 1994 was £14.3 million compared with £9.7 million in the previous year, an increase of 48%.

Geographical contributions

The UK continued to be the largest source of sales and profits, contributing 58% and 79% respectively to the Group's results. The USA result this year was particularly encouraging with operating profit of £2.3 million (1993: £0.2 million), signalling a return to more familiar levels of profitability.

In mainland Europe, CIEL's turnover rose to £5.8 million (1993: £4.9 million) with profits remaining constant at £0.7 million as a result of a planned increase in marketing expenditure to 21% of sales revenues. In the year to 30 September 1995 mainland Europe will become much more significant to Sage as a result of the acquisition of Saari SA.

Taxation, attributable profits and dividends

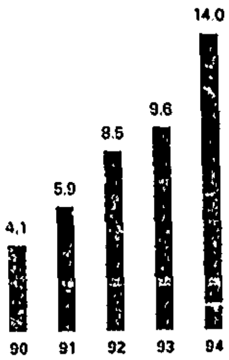
Tax has been provided on 1994 profits at a rate of 33% (1993: 31%). The increase resulted from a higher proportion of Group profits arising in the USA where there was a higher effective tax rate. The profit attributable to ordinary shareholders was £7.1 million (1993: £4.6 million) after charging ordinary dividends of £2.3 million (1993: £2.1 million). Total dividends comprise an interim payment of 3.65p net per share paid in June 1994 and 7.26p net per share proposed as a final dividend, making a total for the year of 10.91p net (1993: 9.92p net), an increase of 10%.

Earnings per share at 45.4p (1993: 32.5p) represented an increase of 40% covering the ordinary dividend 4.2 times.

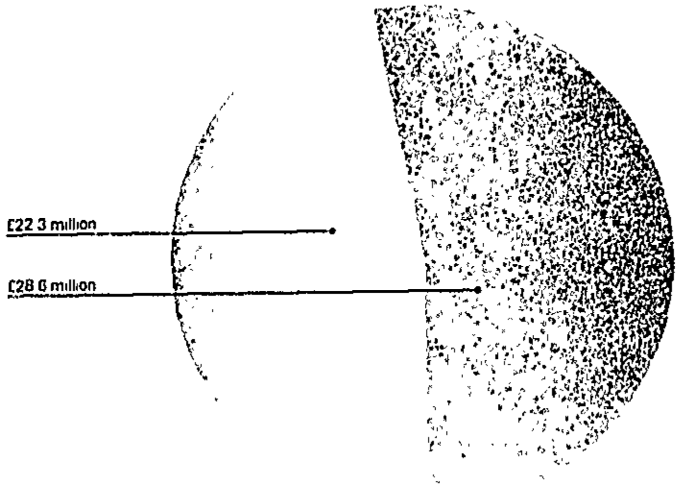
Cash flow and investments

The growth in Group profits was converted into strong operating cash flows which were applied to the expansion of the Group's business. After allowing for interest, taxation and dividends, operating cash flow was £11.7 million. During the year, the costs of acquiring three businesses and deferred consideration payments absorbed £9.0 million; a further £2.9 million was used for capital expenditure, including £1.7 million for the new warehouse development in Newcastle.

A high level of sales to existing customers contributed strongly to the continued growth in operating profits in 1994 which were successfully converted into cash flow.

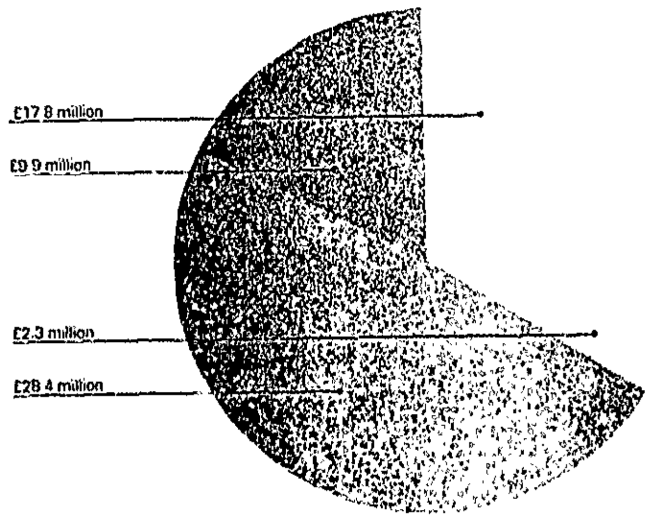


Operating profit (£m)



1994 sales to existing customers compared with total sales

New sales   Sales to existing customers



Cumulative use of funds - 5 years to 30 September 1994

Tax and dividends   Acquisitions
Cash and working capital   Capital investment

Balance sheet

Net cash balances at the year end were £4.0 million compared to £4.2 million at the start of the year.

A five year flexible borrowing facility for £20.0 million (reducing over the term) is now in place to finance the acquisition of Saari. This loan is unsecured, and there are no penalties for early repayment.

Fixed assets at the year end amounted to £10.8 million (1993: £6.9 million), the growth primarily resulting from the new warehouse development in Newcastle.

Deferred maintenance income balances of £6.3 million, representing payments in advance for support contracts, will be released to profit in the current financial year.

The goodwill reserve increased to £31.5 million from £22.2 million at the start of the year as a result of the acquisitions of Multisoft, Timeslips and Venture Business Forms as well as deferred consideration payable in respect of CIEL and Dataform.

Going concern

The following statement has been included in line with the Code of Best Practice outlined in the Cadbury Report on the Financial Aspects of Corporate Governance.

Based on normal business planning and control procedures, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts

Aidan Hughes

Aidan Hughes
Finance Director

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for that period. It is also the directors' responsibility to maintain adequate accounting records, for safeguarding the assets of the Company and Group and for preventing and detecting fraud and other irregularities.

The directors confirm that the financial statements have been prepared on the going concern basis and that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements have been used in the preparation of the financial statements and that applicable accounting standards have been followed.

DIRECTORS' AND COMPANY ADVISERS

Directors

A D Goldman MBE
Chairman

P A Walker

A W G Wylie

T P Maxfield

A J Hughes

K C Howe
USA

B R Fisher
Non-Executive

M E W Jackson
Non-Executive

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NE7 7LZ

The Sage Group plc
Registered Number: 2231246

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Brokers

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Newcastle upon Tyne
NE1 7PH

Auditors

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89 Sandyford Road
Newcastle upon Tyne
NE99 1PL

Solicitors

Allen & Overy
9 Cheapside
London
EC2V 6AD

Registrars

Lloyds Bank plc
Registrar's Department
The Causeway
Worthing
West Sussex
BN99 6DB

The directors have pleasure in presenting their report and accounts for the year ended 30 September 1994.

Results and dividends

The trading results for the year and dividends paid and proposed and the amount transferred to reserves, are set out on page 16.

Activities

The Group's principal activities during the year were the development, distribution and support of branded PC accounting software and related products for medium sized and smaller businesses.

Review of business

The Group achieved profit on ordinary activities before taxation of £14,252,000 on a turnover of £50,888,000. A review of operations of the Group during the year appears on pages 4 to 7, and an indication of future prospects is contained in the Chairman's Statement on pages 2 to 3.

Directors and their interests

The directors at 30 September 1994 and their interests in the ordinary share capital of the Company were as follows:

	30 September 1994		30 September 1993	
	5p ordinary shares	Options over ordinary shares	5p ordinary shares	Options over ordinary shares
A D Goldman (Chairman)	2,073,955	—	2,073,955	—
K C Howe	50,000	—	64,332	50,000
A J Hughes (appointed 1 January 1994)	—	50,000	—	—
T P Maxfield	661,540	2,212	665,540	2,212
P A Walker	186,093	135,663	186,093	185,663
A W G Wylie	2,708,428	—	2,708,428	—
M E W Jackson (non-executive)	17,785	—	22,785	—
B R Fisher (non-executive)	—	—	—	—

All of the above interests in the ordinary share capital of the Company are beneficial other than Mr. A D Goldman's holding which includes 768,815 shares (1993: 768,815) held by him as trustee in a non-beneficial capacity.

K C Howe and M E W Jackson disposed of 14,332 and 5,000 shares respectively during the year. There have been no changes in the directors' interests in the share capital of the Group between 30 September 1994 and 30 January 1995.

Mr K C Howe who owns 2.45% of DacEasy Inc., one of the Group's subsidiary undertakings, has a put and call option in respect of his shareholding which is described in note 15 of the financial statements. No other director had a material interest in any contract, other than a service contract, with the Company or any of its subsidiaries at any time during the year.

M E W Jackson, a non-executive director, has been an adviser to the Company since 1984. He has held senior positions for a number of organisations, and now heads his own corporate finance advisory company.

B R Fisher was appointed a non-executive director in November 1989. He has held various positions in the computer industry and, prior to being appointed as a non executive director of the Group, had acted as a consultant to the Company on international expansion opportunities.

Share capital

Movements in share capital are set out in note 15 to the accounts.

Fixed assets

Movements in fixed assets are set out in note 8 to the accounts.

Employment policy

The Company continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment. The Company has continued its policy of employee involvement by making information available to employees on matters of concern to them.

Research and development

The Group continues to develop business software applications for personal computers.

Close company

The directors consider that the Company is not a close company, as defined by the Income and Corporation Taxes Act 1988.

Auditors

A resolution to re-appoint Price Waterhouse will be put to members at the Annual General Meeting.

Substantial shareholding

At 19 January 1995 the Board was aware of the following substantial shareholdings:

Perry Nominees Limited	5.29%	1,104,797

Apart from those listed above, the Board was not aware of any member who had an interest of 3% or more in the share capital of the Company at 19 January 1995.

Corporate governance

The directors recognise the Code of Best Practice outlined in the Financial Aspects of Corporate Governance, and can report that the majority of the recommendations are currently being followed. However, due to the relatively small size of the Company and the difficulties of finding suitable additional non executive directors, there are certain requirements of the Code, namely, paragraphs 3.2, 3.3, 4.3 and 4.5, still to be met.

Paragraph 3.2 concerns the detailed disclosure of the constituent elements of directors' remuneration, paragraph 3.3 concerns the directors' remuneration being subject to the approval of a remuneration committee and paragraph 4.3 concerns the establishment of an audit committee. On recruitment of further non executive directors, the Company will formally constitute both audit and remuneration committees to address these recommendations. Currently, these areas are controlled by the Chairman and the non executive Deputy Chairman.

Paragraph 4.5 concerning the Company's system of internal control will be addressed in subsequent Annual Reports.

Annual General Meeting

Notice of the seventh Annual General Meeting of The Sage Group PLC to be held on 23 February 1995 is set out on page 31.

A form of proxy is enclosed for the use of members who so wish which should be returned to be with the Company's Registrars no later than 9.30 am on 21 February 1995.

As well as the ordinary business of the meeting resolutions will also be proposed to enable the directors to continue to use their existing power to allot unissued shares in the capital of the Company and to allot equity securities for cash up to an aggregate nominal amount of £50,000. Such an amount is less than 5% of the issued ordinary share capital of the Company.

Mr A J Hughes was appointed a director during the year in accordance with Article 93. In accordance with the same Article a resolution for his election by members will be proposed at the Annual General Meeting.

The directors retiring by rotation in accordance with Article 95 are Mr K C Howe and Mr P A Walker, who being eligible, offers themselves for re-election. Mr A J Hughes and Mr P A Walker is each party to a service contract with the Company, having an initial fixed term of two years from 31 October 1994 and terminable by either side with twelve months notice.

By Order of the Board

Rupert Wyndham

R C E Wyndham
Secretary

30 January 1995

To the shareholders of The Sage Group PLC

We have audited the financial statements on pages 16 to 30 which have been prepared under the historical cost convention and the accounting policies set out on page 21.

Respective responsibilities of directors and auditors

As described on page 11 the Company's directors are responsible for the preparation of 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse

Chartered Accountants and Registered Auditors
Newcastle Upon Tyne

30 January 1995

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 September 1994

	Note	1994 £000	1994 £000	1993 £000	1993 £000
Turnover	2				
Existing operations		49,250		41,289	
Acquisitions		1,638		—	
Continuing operations			50,888		41,289
Cost of sales	3		(9,954)		(8,751)
Gross profit			40,934		32,538
Selling and administrative expenses	3		(26,909)		(22,915)
Operating profit	2,3				
Existing operations		13,945		9,623	
Acquisitions		80		—	
Continuing operations			14,025		9,623
Interest receivable			297		156
Interest payable	4		(70)		(123)
Profit on ordinary activities before taxation			14,252		9,656
Taxation on profit on ordinary activities	6		(4,751)		(2,995)
Profit on ordinary activities after taxation			9,501		6,661
Minority interests			(89)		(22)
Profit for the financial year attributable to shareholders			9,412		6,639
Dividends	7		(2,287)		(2,055)
Amount transferred to reserves	16		7,125		4,584
Earnings per share (pence)	23		45.4p		32.5p
Net dividend per share (pence)	7		10.91p		9.92p

CONSOLIDATED BALANCE SHEET

[illegible] 1994

	Note	1994 £000	1993 £000
Fixed Assets			
Tangible assets	8	10,810	6,911
Current assets			
Stocks	10	1,445	1,326
Debtors	11	6,361	5,106
Cash at bank and in hand		3,959	4,448
		11,765	10,880
Creditors: amounts falling due within one year	12	(14,561)	(10,479)
Net current (liabilities)/assets		(2,796)	401
Total assets less current liabilities		8,014	7,312
Creditors: amounts falling due after more than one year	13	(1,097)	(430)
Provisions for liabilities and charges	14	(174)	(174)
Deferred maintenance income		(6,274)	(4,237)
		469	2,471
Capital and reserves			
Called up equity share capital	15	1,045	1,026
Share premium	15	8,348	8,190
Profit and loss account	16	22,521	15,402
		31,914	24,618
Goodwill reserve	17	(31,547)	(22,162)
Shareholders' funds		367	2,456
Minority interests		102	15
		469	2,471

COMPANY BALANCE SHEET

As at 30 September 1994

	Note	1994 £000	1993 £000
Fixed assets			
Investments	9	19,382	13,731
Current assets			
Stocks	10	194	138
Debtors	11	13,350	24,807
Cash at bank and in hand		1,655	1,309
		15,199	26,254
Creditors: amounts falling due within one year	12	(7,224)	(17,453)
Net current assets		7,975	8,801
Total assets less current liabilities		27,357	22,532
Provision for liabilities and charges	14	(1)	(1)
		27,356	22,531
Capital and reserves			
Called up equity share capital	15	1,045	1,026
Share premium	15	8,348	8,190
Profit and loss account	16	17,963	13,315
		27,356	22,531

The financial statements on pages 16 to 30 were approved by the board of directors on 30 January 1995 and are signed on their behalf by:

P A Walker
Director

A J Hughes
Director

CONSOLIDATED CASH FLOW STATEMENT

[illegible] ended 30 September 1994

	1994 £000	1993 £000
Net cash inflow from operating activities	16,847	10,586
Returns on investments and servicing of finance		
Interest received	296	156
Interest paid	(65)	(100)
Interest element of finance lease rental payments	(5)	(23)
Dividends paid	(2,124)	(1,912)
Net cash outflow from returns on investments and servicing of finance	(1,898)	(1,879)
Taxation		
Corporation tax (including ACT) paid	(3,226)	(3,589)
Investing activities		
Purchase of tangible fixed assets	(2,851)	(1,899)
Purchase of subsidiary undertakings:		
Net cash consideration – current year	(7,510)	(5,787)
– prior year	(1,124)	—
Royalty payments	(368)	(532)
Sale of tangible fixed assets	58	76
Net cash outflow from investing activities	(11,795)	(8,142)
Net cash outflow before financing	(72)	(3,024)
Financing		
Shares issued	160	186
Movement in loan funding	(163)	(121)
Finance lease funding net of capital payments	(189)	5
Net cash (outflow)/inflow from financing	(192)	70
Decrease in cash and cash equivalents	(264)	(2,954)

The notes to the Consolidated Cash Flow Statement are shown in Note 24 to the Accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30 September 1994

	1994 £000	1993 £000
Profit for the financial year attributable to shareholders	9,412	6,639
Currency translation of foreign currency net investments	(6)	(332)
Total gains and losses relating to the year	9,406	6,307

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 September 1994

	1994 £000	1993 £000
Profit for the financial year attributable to shareholders	9,412	6,639
Dividends	(2,287)	(2,055)
Amount transferred to reserves	7,125	4,584
Currency translation of foreign currency net investments	(6)	(332)
Share issues in respect of acquisitions	17	306
Goodwill arising in year	(9,385)	(7,522)
Shares issued for options	160	186
Movement for the year	(2,089)	(2,778)
Opening shareholders' funds	2,456	5,234
Closing shareholders' funds	367	2,456

1. Accounting policies

(a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

(b) Basis of consolidation

The financial statements of the Group comprise the financial statements of the Company and its subsidiaries prepared to 30 September 1994. The results of subsidiary undertakings acquired during the year are included from the effective date of acquisition.

(c) Goodwill

Goodwill, being the excess of the cost of shares in subsidiary undertakings over the fair value of assets acquired, is written off directly to a goodwill reserve in the year it is incurred.

(d) Turnover

Turnover represents invoiced sales to third parties after deducting credit notes, allowances, trading discounts and Value Added Tax and is adjusted to include maintenance income on a straight line basis over the life of each maintenance agreement.

(e) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation on tangible fixed assets is provided for as follows:

Freehold land and buildings	–	0%
Long leasehold land and building	–	over period of lease
Plant and equipment	–	33.3% per annum on reducing balance
Motor vehicles	–	25% per annum on reducing balance
Fixtures and fittings	–	15% per annum on reducing balance

No depreciation is charged on the Group's freehold land and buildings because the directors consider that the economic life of that property and the residual value are such that depreciation is not significant.

(f) Development costs

All costs associated with the development of software are written off as incurred.

(g) Stocks

Stocks are stated at the lower of cost and net realisable value.

(h) Leasing

Where plant and equipment is acquired by finance leasing arrangements which give rights approximating to ownership the amount representing the purchase price of such assets is included in tangible fixed assets and the related obligations are included in creditors.

All other leases are classified as operating leases and the annual rentals are charged to the profit and loss account as they fall due.

(i) Foreign currency translation

Assets and liabilities of the foreign subsidiaries are translated into sterling at rates of exchange ruling at the year-end with exchange differences being taken directly to reserves. Trading results are translated at the average rate prevailing during the year. Other assets and liabilities expressed in foreign currency are translated into sterling at rates ruling at the year end and translation differences are dealt with in the profit and loss account.

(j) Deferred taxation

Provision is made for deferred taxation to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

(k) Pension scheme

The Group operates defined contribution pension schemes for certain of its employees. The costs are charged to the profit and loss account as they fall due.

2. Segment information

The directors consider there to be only one class of business and therefore only geographical segment information is given below.

(a) The geographical analysis of turnover by destination is as follows:

	1994 £000	1993 £000
United Kingdom	28,866	21,927
Mainland Europe	6,016	5,036
United States of America	15,821	13,943
Rest of World	185	383
	50,888	41,289

(b) The geographical analysis of turnover, operating profit and net assets by origin is as follows:

	1994 Turnover £000	1994 Operating profit £000	1994 Net assets £000	1993 Turnover £000	1993 Operating profit £000	1993 Net assets £000
United Kingdom	29,273	11,078	417	22,148	8,739	2,498
Mainland Europe	5,795	657	530	4,851	669	289
United States of America	15,820	2,290	(478)	14,290	215	(316)
	50,888	14,025	469	41,289	9,623	2,471

3. Operating profit

(a) Operating Profit is stated after charging:

	1994 £000	1993 £000
Staff costs (including directors' emoluments):		
– Wages and salaries	11,853	9,732
– Social security costs	1,867	1,497
– Other pension costs	336	437
Research and development (including staff costs)	2,202	1,956
Depreciation of tangible fixed assets – owned	1,033	816
– leased	38	40
Operating lease rentals	559	292
Loss on sale of tangible fixed assets	96	28
Auditors' remuneration	70	68

Auditors' remuneration shown above includes £11,000 (1993: £11,000) in respect of the Company. Non-audit services supplied by the Company's auditors in the year amounted to £45,000 (1993: £29,000).

(b) Operating costs

	1994 Existing	1994 Acquisitions	1994 Total	1993 Existing	1993 Acquisitions	1993 Total
Cost of sales	9,750	204	9,954	8,751	—	8,751
Selling and administrative expenses	25,555	1,354	26,909	22,915	—	22,915

4. Interest payable

	1994 £000	1993 £000
Interest payable on borrowings repayable within five years	65	100
Finance charges on finance leases	5	23
	70	123

5. Employees and directors

(a) Employees

The average number of persons employed by the Group during the year was:

	1994	1993
United Kingdom and Europe	393	295
United States of America	252	261
	645	556

(b) Directors

Directors' emoluments for the year were £881,616 (1993: £837,000). The emoluments of the Chairman who was also the highest paid director were £176,928 (1993: £162,000).

The number of directors whose emoluments (excluding pension contributions) were within the following bands, excluding Mr K C Howe whose duties were performed outside the United Kingdom, was as follows:

	1994	1993
£10,001 – £15,000	1	1
£20,001 – £25,000	1	—
£25,001 – £30,000	—	1
£45,001 – £50,000	1	—
£85,001 – £90,000	1	1
£110,001 – £115,000	—	1
£115,001 – £120,000	—	1
£120,001 – £125,000	1	1
£130,001 – £135,000	1	—
£140,001 – £145,000	1	—
£160,001 – £165,000	—	1
£175,001 – £180,000	1	—

Emoluments noted above exclude any amounts in respect of share options, details of which are given in the Directors' Report on page 12.

A further payment of £50,000 was made to S L Stewart as compensation for loss of office.

6. Taxation

	1994 £000	1993 £000
UK Corporation tax	3,777	2,925
Overseas tax	974	70
	4,751	2,995

UK Corporation tax has been charged on profits at 33% (1993: 31%).

7. Dividends

	1994 £000	1993 £000
Interim paid 3.65p per share (1993: 3.32p)	770	701
Final proposed 7.26p per share (1993: 6.60p)	1,517	1,354
	2,287	2,055

8. Tangible fixed assets

Group	Freehold land and buildings £000	Leasehold land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Cost						
At 1 October 1993	3,792	—	3,025	1,361	738	8,916
Additions	2,077	—	482	74	218	2,851
Disposals	—	—	(41)	(26)	(191)	(258)
Businesses Acquired	1,764	217	1,458	175	213	3,827
Exchange rate movements	—	—	(82)	(22)	—	(104)
At 30 September 1994	7,633	217	4,842	1,562	978	15,232
Depreciation						
At 1 October 1993	—	—	1,355	406	244	2,005
Charge for the year	—	1	720	194	156	1,071
Disposals	—	—	(7)	(2)	(95)	(104)
Businesses Acquired	—	85	1,255	63	81	1,484
Exchange rate movements	—	—	(19)	(15)	—	(34)
At 30 September 1994	—	86	3,304	646	386	4,422
Net Book Amount						
At 30 September 1994	7,633	131	1,538	916	592	10,810
At 30 September 1993	3,792	—	1,670	955	494	6,911

Included above are fixed assets purchased under finance leases at a cost of £263,000 (1993: £287,000). The accumulated depreciation on these assets at 30 September 1994 is £130,000 (1993: £108,000).

9. Investments

	Company	
	1994 £000	1993 £000
Cost of shares in Group undertakings	19,678	14,027
Provision for diminution in value in Group undertaking	(296)	(296)
Net book amount	19,382	13,731

The movement in the Company's investments in Group undertakings during the year principally represents the acquisitions of the business of Timeslips and Multisoft Financial Systems Limited, plus deferred consideration in respect of prior year acquisitions.

Principal subsidiary undertakings at 30 September 1994 were as follows:

Company	Nature of Business	Country of incorporation and operation	Proportion held
Sagesoft Limited	Software development and publication	England	100%
DacEasy Inc.*	Software development and publication	USA	97.6%
Telemagic Inc.*	Software development and publication	USA	100%
Timeslips Inc.*	Software development and publication	USA	100%
Yorkshire Business Forms Limited	Distribution of computer forms	England	100%
Multisoft Financial Systems Limited	Software development and publication	England	100%
CIEL SA*	Software development and publication	France	95%

* Shares held by subsidiary undertaking.

10. Stocks

	Group		Company	
	1994 £000	1993 £000	1994 £000	1993 £000
Materials	606	561	135	112
Finished Goods	839	765	59	26
	1,445	1,326	194	138

11. Debtors

	Group		Company	
	1994 £000	1993 £000	1994 £000	1993 £000
Amounts owed by Group undertakings	—	—	10,501	21,411
Trade debtors	4,572	4,038	2,315	2,853
Other debtors	653	86	17	25
Prepayments	756	589	138	125
Taxation recoverable	379	393	379	393
	6,361	5,106	13,350	24,807

The taxation recoverable represents advance corporation tax which is recoverable more than one year after the balance sheet date.

12 Creditors: amounts falling due within one year

	Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Bank overdrafts	—	225	—	—
Current portion of loans	198	—	—	—
Current portion of finance lease obligations	33	26	—	—
Trade creditors	3,391	1,817	1,186	670
Amounts owed to Group undertakings	—	—	1,863	13,459
Corporation tax	4,214	2,437	—	—
Other taxes and social security costs	689	1,043	442	815
Accruals	2,100	2,071	1,099	555
Deferred consideration on acquisitions	1,224	976	738	207
Advance corporation tax	379	393	379	393
Proposed dividend	1,517	1,354	1,517	1,354
Other creditors	816	137	—	—
	14,561	10,479	7,224	17,453

13. Creditors: amounts falling due after more than one year

		Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Finance lease obligations:	1–2 years	—	70	—	—
	2–5 years	—	74	—	—
Loans:	1–2 years	60	—	—	—
	2–5 years	180	—	—	—
	5 years and over	857	286	—	—
		1,097	430	—	—

Loans, repayable in excess of 5 years on which interest is charged at 1.75% and 2% over the UK base rate, are secured on certain Group freehold properties.

14. Provisions for liabilities and charges

	Group 1994 £000	Group 1993 £000	Company 1994 £000	Company 1993 £000
Deferred tax provided:				
Timing differences	174	174	1	1
Full potential deferred tax liability:				
Tax deferred by accelerated capital allowances	(52)	(66)	—	—
Short term timing differences	1,616	1,636	1	1
Unutilised tax losses	—	(485)	—	—
	1,564	1,085	1	1

Deferred tax has been calculated at 33% (1993: 33%)

15. Called up equity share capital and share premium account

(a) Ordinary share capital

	Allotted and fully paid 1994	1993
20,899,991 Ordinary shares of 5p each (1993: 20,5[illegible]8,790)	1,045	1,026

The authorised share capital of the Company at 30 September 1994 is £1,438,500 comprising 28,770,000 ordinary shares of 5p each (1993: £1,438,500 comprising 28,770,000 ordinary shares of 5p each).

On 22 December 1993, 56,875 ordinary shares were issued in connection with the acquisition of Yorkshire Business Forms Limited.

On 2 March 1994, 153,280 ordinary shares were issued in connection with the acquisition of CIEL SA.

During the year 171,046 ordinary shares were issued in respect of options exercised under executive share option schemes which were exercised at prices of 33p and 189p. The following share option schemes were in force at 30 September 1994:

Date Option Granted	Option price per share	Period exercisable	Number of shares available
16.3.89	33p	6.12.89 – 16.3.99	87,875
11.1.91	189p	11.1.94 – 11.1.01	91,791
20.12.91	310p	20.12.94 – 20.12.01	210,000
5.1.93	490p	5.1.96 – 5.1.03	80,000
16.12.93	498p	16.12.96 – 16.12.03	100,000

Mr K C Howe, the President of DacEasy Inc., holds 2.45% of the common stock of that subsidiary. Under the terms of his employment agreement there is a put and call option in respect of his shareholding whereby the Group can satisfy up to 50% of the consideration due in ordinary shares of the Company on or after 15 December 1993.

The Company has utilised section 131(2) of the Companies Act 1985 for share issues in relation to the acquisitions of CIEL SA and Yorkshire Business Forms Limited.

(b) Share premium

	Group and Company £000
At 1 October 1993	8,190
Shares issued for options exercised	158
At 30 September 1994	8,348

16. Profit and loss account

	Group £000	Company £000
At 1 October 1993	15,402	13,315
Retained profit for the year	7,125	4,648
Exchange differences	(6)	—
At 30 September 1994	22,521	17,963

17. Goodwill reserve

	Group £000
At 1 October 1993	22,162
Goodwill arising from acquisitions and investments in the year	9,017
Goodwill arising on royalty payments in the year	368
At 30 September 1994	31,547

Included in royalty payments above is £361,000 paid by Telemagic Inc. to the founders. Royalty payments have been accounted for as being equivalent to goodwill arising on the acquisition, and are therefore written off directly to the goodwill reserve.

18. Acquisitions

On 14 July 1994 the Group acquired 100% of the share capital of Multisoft Financial Systems Limited for a cash consideration of £4.0 million, with a further payment, subject to a maximum of £2.5 million, based on turnover for the two year period from 1 October 1994. The goodwill arising on this acquisition is £3,060,000 after fair value adjustments of £130,000 in respect of recording working capital items in line with Group policy. In the year ended 30 June 1994 Multisoft Financial Systems Limited generated £572,449 profit before tax and a loss before tax of £85,950 for the year ended 30 June 1993.

On 18 August 1994 the Group acquired the business and certain assets of Timeslips Corporation for a cash consideration of $5.1 million (£3.3 million), with a further payment, subject to a maximum of $7.0 million, based on net revenues for the two year period from 1 October 1994. The goodwill arising on this acquisition is £3,852,000.

On 14 September 1994 the Group acquired the business and certain assets of Leslie J Cantrell Limited (trading as Venture Business Forms) for an initial cash consideration of £750,000, with a further payment, subject to a maximum of £1.7 million, based on net profits for the period to 30 September 1996. The goodwill arising on this acquisition is £626,000.

The assets and liabilities of these companies at fair value, after the adjustments referred to above, were:

	£000
Tangible fixed assets	2,343
Stocks	213
Debtors	1,398
Cash at bank	826
Creditors	(1,900)
Loans	(1,172)
Deferred maintenance income	(911)
	797

Total goodwill on these acquisitions is £7,538,000 including costs of £254,000.

19. Parent company profit and loss account

The Sage Group PLC has not presented its own profit and loss account, as permitted by section 230 (1) of the Companies Act 1985. The amount of the profit for the financial year before dividends dealt with in the accounts of the parent company is £6,935,000 (1993: £6,198,000).

20. Operating lease commitments

The annual commitment under non-cancellable operating leases comprises:

		Group		Company	
		1994 £000	1993 £000	1994 £000	1993 £000
Expiring within 1 year	– plant and equipment	2	2	—	—
Expiring between 1 and 2 years	– plant and equipment	31	45	—	—
Expiring between 2 and 5 years	– plant and equipment	39	43	—	—
	– land and buildings	445	404	—	—

21. Capital commitments and contingent liabilities

The Group had no capital commitments at 30 September 1994 (1993: £Nil).

The Group had no contingent liabilities at 30 September 1994 (1993: £Nil) with the exception of deferred consideration in respect of acquisitions (see Note 18).

22. Pension commitments

Since December 1988 the Group has operated a grouped personal pension plan managed by Norwich Union Life Assurance Society for the majority of its UK full time employees. Since June 1989 the Group has also operated a fully insured executive pension plan managed by the Scottish Equitable Life Assurance Society for its Executive Directors. Both are defined contribution pension schemes.

23. Earnings per share

Earnings per share are calculated based on a weighted average number of 5p shares in issue during the year of 20,733,964 (1993: 20,444,518).

24. Consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	1994	1993
Operating profit	14,025	9,623
Depreciation charges	1,071	856
Loss on sale of tangible fixed assets	96	28
Exchange differences	103	(120)
Decrease/(increase) in stocks	70	(55)
Decrease/(increase) in debtors	138	(104)
Increase/(decrease) in creditors	268	(579)
Increase in provision for deferred maintenance	1,076	937
Net cash inflow from operating activities	16,847	10,586

(b) Analysis of changes in cash and cash equivalents

	Cash at Bank and in hand £000	Bank Overdraft £000	Net Cash £000
Balance at 1 October 1993	4,448	(225)	4,223
Net cash movement	(489)	225	(264)
Balance at 30 September 1994	3,959	—	3,959

(c) Analysis of changes in financing during the year

	Share Capital (including premium) £000	Loans £000	Obligations under Finance Leases £000
Balance at 1 October 1993	9,216	286	170
Acquisitions	17	1,172	52
Net cash flows from financing	160	(163)	(189)
Balance at 30 September 1994	9,393	1,295	33

25. Post balance sheet event

On 21 November 1994 Sage completed the acquisition of the Saari group of companies in France. The consideration paid for the acquisition was FFr160.0 million (£19.1 million).

Notice is hereby given that the seventh Annual General Meeting of The Sage Group PLC will be held at Sage House, Benton Park Road, Newcastle Upon Tyne at 9.30 am on 23 February 1995, for the following purposes.

Ordinary Business

To consider and, if thought fit, to adopt the following resolutions which will be proposed as Ordinary Resolutions:

1. To consider and receive the Report of the Directors and the statement of accounts for the year ended 30 September 1994.
2. To declare a final dividend of 7.26p per ordinary share for the year ending 30 September 1994 to be paid on 24 February 1995 to members whose names appear on the register on 26 January 1995.
3. To elect or re-elect directors:
   - Mr A J Hughes under the provisions of Article 93;
   - Mr K C Howe under the provisions of Article 95;
   - Mr P A Walker under the provisions of Article 95.
4. To re-appoint Messrs Price Waterhouse as Auditors to the Company and to authorise the directors to determine their remuneration.

Special Business

As special business, to consider and, if thought fit, pass the following resolutions, which will be proposed, as to Resolution number 5, as an Ordinary Resolution and, as to Resolution number 6, as a Special Resolution:

5. That:

(a) subject to and in accordance with Article 19 of the Company's Articles of Association, the directors be authorised to allot relevant securities up to a maximum nominal amount of £330,000 in aggregate; and

(b) all previous authorities under section 80 of the Companies Act 1985 shall henceforth cease to have effect.

6. That:

(a) subject to and in accordance with Article 20 of the Company's Articles of Association, the directors be empowered to allot equity securities for cash and that, for the purposes of the limitation of the said power referred to in paragraph (b) of Article 20, the nominal amount to which this power is limited is £50,000; and

(b) the date on which such power shall expire (save as mentioned in Article 20) shall be the date of the next Annual General Meeting of the Company after the passing of this resolution.

Rupert Wyndham

R C E Wyndham
Secretary

30 January 1995

Registered office:
Sage House
Benton Park Road
Newcastle Upon Tyne NE7 7LZ

Notes

(i) A member entitled to attend and vote may appoint one or more proxies to attend and vote instead of him. A proxy need not also be a member.

(ii) To be valid, a Form of Proxy must be completed and returned to the Company's registered office not less than 48 hours before the time appointed for the meeting. The completion and return of a Form of Proxy will not prevent a member who wishes to do so from attending and voting in person.

(iii) Copies of the directors' service contracts are available for inspection at Sage House, Benton Park Road, Newcastle upon Tyne during normal business hours on any week day (Saturday excepted) and also at the place of the AGM for 15 minutes prior to the meeting and during the meeting.