

Sophos Plc

**Directors' report and consolidated
financial statements**

Registered number 2096520

31 March 2001

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2001 .

Principal activities

The group is principally engaged in the business of developing, selling and supporting software for computer security.

Business review and future plans

Turnover was 54% up on prior year reflecting the group's success in winning and retaining customers. Further international expansion led to a doubling of revenue outside the UK and continental Europe. There was a profit for the year after taxation of £5,155,071 (*2000: £3,192,594*).

The group will continue to exploit market opportunities.

Research and development

The group continues to undertake research and development relating to the principal activity.

Proposed dividend and transfer to reserves

The directors recommend that a final dividend of £1,164,827 (*2000: £671,795*) be paid. Total dividends for the year are £1,546,529 (*2000: £958,072*), leaving retained profits of £3,608,542 (*2000: £2,234,522*).

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the group does not differ significantly from the book values of these assets.

Policy and practice on payment of creditors

It is the company's policy to pay its suppliers on a timely basis and in accordance with agreed terms.

At the year-end there were 13 days (*2000: 20 days*) purchases in trade creditors.

Political and charitable donations

The group made no political donations during the year. Contributions to local charities totalled £926 (*2000: £890*).

Directors' report *(continued)*

Directors and directors' interests

The directors who held office during the year and their interests in the ordinary shares of Sophos Plc according to the register of directors' interests were:

	Interest at end of year	Interest at start of year or date of appointment
Dr Peter Lammer	25,056	25,056
Dr Jan Hruska	25,056	25,056
Mr Peter Norman	40	40
Mr Mark Forrest	-	-
Mr Richard Jacobs (appointed 14 December 2000)	505	505

Auditors

On 25 January 2001 Grant Thornton resigned as auditors of the group. Subsequently KPMG were appointed by the directors.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Dr Peter Lammer
Director

The Pentagon
Abingdon Science Park
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Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



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Theale
Reading
RG7 4SD

Report of the auditors to the members of Sophos Plc

We have audited the financial statements on pages 5 to 23.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

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 group'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 31 March 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

12 June 2001

Consolidated profit and loss account
for the year ended 31 March 2001

	<i>Note</i>	2001 £	2000 £
Turnover	2	22,625,220	14,689,288
Cost of sales		(1,253,871)	(896,452)
		<hr/>	<hr/>
Gross profit		21,371,349	13,792,836
Administrative expenses		(14,174,504)	(9,331,563)
Other operating income	24	104,000	90,320
		<hr/>	<hr/>
Operating profit		7,300,845	4,551,593
Interest receivable	6	529,257	187,779
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3-5	7,830,102	4,739,372
Tax on profit on ordinary activities	7	(2,675,031)	(1,546,778)
		<hr/>	<hr/>
Profit for the financial year		5,155,071	3,192,594
Dividends paid and proposed	8	(1,546,529)	(958,072)
		<hr/>	<hr/>
Retained profit for the year	17	3,608,542	2,234,522
		<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2001

	2001 £	2000 £
Profit for financial year	5,155,071	3,192,594
Translation differences on foreign currency net investments	(143,288)	-
	<hr/>	<hr/>
Total gains and losses recognised for the year	5,011,783	3,192,594
	<hr/> <hr/>	<hr/> <hr/>

Consolidated balance sheet
at 31 March 2001

	<i>Note</i>	2001 £	2001 £	2000 £	2000 £
Fixed assets					
Tangible assets	<i>9</i>		7,107,889		5,456,976
Current assets					
Stocks	<i>11</i>	37,417		61,248	
Debtors	<i>12</i>	5,647,001		3,691,311	
Cash at bank and in hand		13,817,695		7,050,796	
		<u>19,502,113</u>		<u>10,803,355</u>	
Creditors: amounts falling due within one year	<i>13</i>	<u>(12,891,501)</u>		<u>(7,760,072)</u>	
Net current assets			6,610,612		3,043,283
Total assets less current liabilities			13,718,501		8,500,259
Creditors: amounts falling due after more than one year	<i>14</i>		(3,346,878)		(1,577,891)
Provisions for liabilities and charges	<i>15</i>		(230,500)		(246,499)
Net assets			10,141,123		6,675,869
Capital and reserves					
Called up share capital	<i>16</i>		63,617		63,617
Share premium account			110,766		110,766
Profit and loss account	<i>17</i>		9,966,740		6,501,486
Equity shareholders' funds			10,141,123		6,675,869

These financial statements were approved by the board of directors on 23 May 2001 and were signed on its behalf by:

Dr Peter Lammer
Director

Balance sheet
at 31 March 2001

	<i>Note</i>	2001	2001	2000	2000
		£	£	£	£
Fixed assets					
Tangible assets	9		6,789,064		5,298,596
Investments	10		104,050		18,183
			<hr/>		<hr/>
			6,893,114		5,316,779
Current assets					
Stocks	11	37,417		61,248	
Debtors	12	6,873,975		5,210,450	
Cash at bank and in hand		13,043,100		6,485,539	
			<hr/>		<hr/>
		19,954,492		11,757,237	
Creditors: amounts falling due within one year	13	(11,041,909)		(7,050,667)	
			<hr/>		<hr/>
Net current assets			8,912,583		4,706,570
			<hr/>		<hr/>
Total assets less current liabilities			15,805,697		10,023,349
Creditors: amounts falling due after more than one year					
	14		(2,662,228)		(1,413,187)
Provisions for liabilities and charges	15		(230,500)		(246,499)
			<hr/>		<hr/>
Net assets			12,912,969		8,363,663
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	16		63,617		63,617
Share premium account			110,766		110,766
Profit and loss account	17		12,738,586		8,189,280
			<hr/>		<hr/>
Equity shareholders' funds			12,912,969		8,363,663
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on its behalf by:

and were signed on

Dr Peter Lammer
Director

Consolidated cash flow statement
for the year ended 31 March 2001

	<i>Note</i>	2001 £	2000 £
Cash flow statement			
Cash flow from operating activities	<i>21</i>	11,719,928	7,179,316
Return on investments and servicing of finance	<i>22</i>	529,717	187,319
Taxation		(1,978,650)	(1,386,612)
Capital expenditure and financial investment	<i>22</i>	(2,480,310)	(864,888)
Equity dividends paid		(1,053,497)	(768,827)
		<hr/>	<hr/>
Cash inflow before management of liquid resources and financing		6,737,188	4,346,308
Management of liquid resources	<i>22</i>	(6,376,168)	(4,985,999)
Financing	<i>22</i>	-	25,167
		<hr/>	<hr/>
Increase / (decrease) in cash in the period		361,020	(614,524)
		<hr/> <hr/>	<hr/> <hr/>
Reconciliation of net cash flow to movement in net funds			
Increase / (decrease) in cash in the period	<i>23</i>	361,020	(614,524)
Cash inflow from decrease in liquid resources	<i>23</i>	6,376,168	4,985,999
		<hr/>	<hr/>
Change in net funds resulting from cash flows		6,737,188	4,371,475
Exchange differences	<i>23</i>	29,711	-
		<hr/>	<hr/>
Movement in net funds in the period		6,766,899	4,371,475
Net funds at the start of the period		7,050,796	2,679,321
		<hr/>	<hr/>
Net funds at the end of the period		13,817,695	7,050,796
		<hr/> <hr/>	<hr/> <hr/>

Reconciliations of movements in shareholders' funds
for the year ended 31 March 2001

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Profit for the financial year	5,155,071	3,192,594	6,095,835	3,512,404
Dividends	(1,546,529)	(958,072)	(1,546,529)	(958,072)
	<hr/>	<hr/>	<hr/>	<hr/>
	3,608,542	2,234,522	4,549,306	2,554,332
Exchange differences	(143,288)	-	-	-
New share capital subscribed (net of issue costs)	-	25,167	-	25,167
	<hr/>	<hr/>	<hr/>	<hr/>
Net addition to shareholders' funds	3,465,254	2,259,689	4,549,306	2,579,499
Opening shareholders' funds	6,675,869	4,416,180	8,363,663	5,784,164
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	10,141,123	6,675,869	12,912,969	8,363,663
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 March 2001. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

In the company's financial statements, investments in subsidiary undertakings are stated at cost, less any provision for impairment.

Under the exemption within Financial Reporting Standard 8, the group has elected not to disclose transactions made between companies within the group.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

Customers enter into annual or longer term contracts with the group. Most commonly, customers receive software products at the start of the contract and are also entitled to receive regular updates or other services during the contract period. The contract revenue is allocated between these elements. Revenue attributable to the initial software product is recognised in full upon delivery. Revenue attributable to updates and services is recognised rateably over the duration of the contract.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	4% per annum
Leasehold improvements	-	over the life of the lease
Computer equipment	-	33⅓% per annum
Other plant and equipment	-	20% per annum
Motor vehicles	-	25% per annum
Fixtures and fittings	-	15% per annum

No depreciation is provided on freehold land.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

There are no finance leases. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Post retirement benefits

The group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash) and investments in money market managed funds.

Notes (continued)

2 Segmental information

All sales originate from the UK.

	United Kingdom		Continental Europe		Rest of the World	
	2001 £	2000 £	2001 £	2000 £	2001 £	2000 £
Turnover by destination	11,307,906	7,492,418	5,562,039	4,414,802	5,755,275	2,782,068

The directors consider there to be a single class of business.

3 Profit on ordinary activities before taxation

	2001 £	2000 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging:</i>		
Auditors' remuneration:		
Group		
- audit (including in respect of company £7,500; 2000 : £5,000)	10,000	7,000
- fees paid to the auditors and its associates in respect of other services	56,368	3,000
Depreciation and other amounts written off tangible fixed assets:	815,826	623,572
Hire of plant and machinery - rentals payable under operating leases	104,705	62,327
Hire of other assets - operating leases	229,338	105,248
Research and development expenditure	2,020,949	1,502,395
<i>after crediting:</i>		
Profit on sale of fixed assets	5,900	6,801

Notes *(continued)*

4 Remuneration of directors

	2001	2000
	£	£
Directors' emoluments	478,618	270,585
Amounts receivable under long term incentive schemes	46,558	-
	<u> </u>	<u> </u>
Company contributions to money purchase pension schemes	13,000	9,600
	<u> </u>	<u> </u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £206,967 (2000: £122,807), and company pension contributions of £3,400 (2000: £4,800) were made to a money purchase scheme on his behalf.

	Number of directors	
	2001	2000
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	2
	<u> </u>	<u> </u>

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2001	2000
Technical	96	75
Sales and marketing	67	38
Administration	35	22
	<u> </u>	<u> </u>
	198	135
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2001	2000
	£	£
Wages and salaries	6,916,421	4,655,107
Social security costs	778,381	495,699
Other pension costs	134,975	74,290
	<u> </u>	<u> </u>
	7,829,777	5,225,096
	<u> </u>	<u> </u>

Notes (*continued*)

6 Interest receivable

	2001	2000
	£	£
Bank interest receivable	529,257	187,779
	<u> </u>	<u> </u>

7 Taxation

	2001	2000
	£	£
<i>UK corporation tax</i>		
Current tax on income for the period at 30% (2000: 30%)	2,690,498	1,512,830
Adjustments in respect of prior periods	-	527
	<u> </u>	<u> </u>
	2,690,498	1,513,357
<i>Foreign tax</i>		
Current tax on income for the period	532	493
	<u> </u>	<u> </u>
	2,691,030	1,513,850
Deferred tax (see note 15)	(15,999)	32,928
	<u> </u>	<u> </u>
	2,675,031	1,546,778
	<u> </u>	<u> </u>

8 Dividends paid and proposed

	2001	2000
	£	£
Ordinary shares:		
Interim dividend paid	303,942	227,957
Final dividend proposed	927,530	534,938
	<u> </u>	<u> </u>
	1,231,472	762,895
Preference shares:		
Interim dividend paid	77,760	58,320
Final dividend proposed	237,297	136,857
	<u> </u>	<u> </u>
	1,546,529	958,072
	<u> </u>	<u> </u>

The aggregate amount of proposed dividends is £ 1,164,827 (2000: £671,795).

Notes (*continued*)

9 Tangible fixed assets

Group	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
<i>Cost</i>					
At beginning of year	5,283,293	2,067,117	78,863	245,688	7,674,961
Additions	1,566,497	754,632	31,261	133,820	2,486,210
Disposals	-	-	(7,000)	-	(7,000)
Exchange movement	-	(8,487)	671	(7,472)	(15,288)
At end of year	<u>6,849,790</u>	<u>2,813,262</u>	<u>103,795</u>	<u>372,036</u>	<u>10,138,883</u>
<i>Depreciation</i>					
At beginning of year	512,444	1,539,113	56,296	110,132	2,217,985
Charge for year	176,849	558,573	17,664	62,740	815,826
On disposals	-	-	(7,000)	-	(7,000)
Exchange movement	-	13,416	(87)	(9,146)	4,183
At end of year	<u>689,293</u>	<u>2,111,102</u>	<u>66,873</u>	<u>163,726</u>	<u>3,030,994</u>
<i>Net book value</i>					
At 31 March 2001	<u>6,160,497</u>	<u>702,160</u>	<u>36,922</u>	<u>208,310</u>	<u>7,107,889</u>
At 31 March 2000	<u>4,770,849</u>	<u>528,004</u>	<u>22,567</u>	<u>135,556</u>	<u>5,456,976</u>

Within freehold land and buildings, the gross cost which is depreciable is £4,421,225 (2000: £4,410,209)

Notes *(continued)*

9 Tangible fixed assets *(continued)*

Company	Freehold land and buildings £	Plant and machinery £	Motor vehicles £	Fixtures and fittings £	Total £
Cost					
At beginning of year	5,283,293	1,886,079	66,043	156,968	7,392,383
Additions	1,566,497	547,762	12,216	37,081	2,163,556
Disposals	-	(43,740)	(7,000)	-	(50,740)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	6,849,790	2,390,101	71,259	194,049	9,505,199
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At beginning of year	512,444	1,447,778	53,091	80,474	2,093,787
Charge for year	176,849	430,168	9,530	27,381	643,928
On disposals	-	(14,580)	(7,000)	-	(21,580)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	689,293	1,863,366	55,621	107,855	2,716,135
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 31 March 2001	6,160,497	526,735	15,638	86,194	6,789,064
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2000	4,770,849	438,301	12,952	76,494	5,298,596
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Within freehold land and buildings, the gross cost which is depreciable is £4,421,225 (2000: £4,410,209).

Notes (continued)

10 Fixed asset investments

Company	Shares in group undertakings £
<i>Cost</i>	
At beginning of year	18,183
Additions	85,867
	104,050
At end of year	104,050

The principal undertakings in which the company's interest at the year-end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class of shares held	Percentage of shares held
<i>Subsidiary undertakings</i>				
Sophos Inc	United States of America	Selling software for computer security	Ordinary	100%
Sophos GmbH	Germany	Selling software for computer security	Ordinary	100%
Sophos Pty Ltd	Australia	Selling software for computer security	Ordinary	100%
Sophos Sarl	France	Selling software for computer security	Ordinary	100%
Sophos KK	Japan	Selling software for computer security	Ordinary	100%

All the above investments have been included in the consolidated financial statements.

Notes (continued)

11 Stocks

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Finished goods and goods for resale	37,417	61,248	37,417	61,248
	<u>37,417</u>	<u>61,248</u>	<u>37,417</u>	<u>61,248</u>

12 Debtors

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Trade debtors	5,243,526	3,432,575	3,341,079	2,622,995
Amounts owed by group undertakings	-	-	3,380,024	2,449,356
Other debtors	212,501	122,901	103,288	102,834
Prepayments	190,974	135,835	49,584	35,265
	<u>5,647,001</u>	<u>3,691,311</u>	<u>6,873,975</u>	<u>5,210,450</u>
	<u>5,647,001</u>	<u>3,691,311</u>	<u>6,873,975</u>	<u>5,210,450</u>

13 Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Trade creditors	367,058	286,168	273,133	200,268
Corporation tax	1,704,043	991,664	1,704,043	991,664
Social security and other taxes	726,167	703,750	594,995	646,398
Other creditors	2,276	-	-	-
Dividends proposed	1,164,827	671,795	1,164,827	671,795
Accruals and deferred income	8,927,130	5,106,695	7,304,911	4,540,542
	<u>12,891,501</u>	<u>7,760,072</u>	<u>11,041,909</u>	<u>7,050,667</u>
	<u>12,891,501</u>	<u>7,760,072</u>	<u>11,041,909</u>	<u>7,050,667</u>

Notes (*continued*)

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Accruals and deferred income	3,346,878	1,577,891	2,662,228	1,413,187
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15 Provisions for liabilities and charges

Group and Company	Deferred tax
	£
At beginning of year	246,499
Amounts credited to the profit and loss account (note 7)	(15,999)
	<u> </u>
At end of year	230,500
	<u> </u>

Deferred tax is due to the timing difference between accumulated depreciation and capital allowances and is fully provided for.

16 Called up share capital

	2001	2000
	£	£
<i>Authorised</i>		
Ordinary shares of £1 each	9,000,000	9,000,000
Preference shares of £1 each	1,000,000	1,000,000
	<u> </u>	<u> </u>
	10,000,000	10,000,000
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	50,657	50,657
Preference shares of £1 each	12,960	12,960
	<u> </u>	<u> </u>
	63,617	63,617
	<u> </u>	<u> </u>

The preference shares are equity shares. They carry entitlement to a dividend of 30% of the attributable profit. The attributable profit represents the group profit for the year before the payment or provision of any dividends, before any transfers to reserves or amortisation of goodwill and after any provision for corporation tax, divided by the aggregate number of preference and ordinary shares in issue during the financial year. Ordinary shareholders are entitled to a dividend equal to the dividend paid to the preference shareholders. Preference shareholders have the right on a winding up to receive, in priority to the ordinary shareholders, a sum equal to any arrears, deficiency or accruals of preference dividends calculated to the date of the return of capital and payable whether the dividend has been declared or earned. The balance of net assets is distributed equally between the preference and ordinary shareholders.

Notes *(continued)*

17 Profit and loss reserve

	Group	Company
	£	£
At beginning of year	6,501,486	8,189,280
Retained profit for the year	3,608,542	4,549,306
Exchange adjustments	(143,288)	-
	9,966,740	12,738,586
At end of year	9,966,740	12,738,586

18 Contingent liabilities

The group had no contingent liabilities at 31 March 2001 or 31 March 2000.

19 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	Group		Company	
	2001	2000	2001	2000
	£	£	£	£
Contracted but not provided for	12,097	13,807	10,750	13,807
	12,097	13,807	10,750	13,807
Authorised but not contracted for	29,985,039	-	29,985,039	-
	29,985,039	-	29,985,039	-

(b) At the end of the financial year the Group had entered into no commitments in respect of finance leases or hire purchase contracts, the inception of which occurs after the year-end.

Notes *(continued)*

19 Commitments *(continued)*

(c) Annual commitments under non-cancellable operating leases are as follows:

Group	2001		2000	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	32,206	-	8,885	2,642
In the second to fifth years inclusive	158,902	82,752	127,410	59,275
Over five years	58,830	-	13,000	-
	<u>249,938</u>	<u>82,752</u>	<u>149,295</u>	<u>61,917</u>

Company	2001		2000	
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases which expire:				
Within one year	-	-	-	2,642
In the second to fifth years inclusive	-	72,649	-	55,597
Over five years	-	-	13,000	-
	<u>-</u>	<u>72,649</u>	<u>13,000</u>	<u>58,239</u>

20 Pension scheme

The group contributes to money purchase personal pension schemes for the benefit of the employees and directors. The assets of the schemes are administered by trusts in funds independent from the group. The pension cost charge for the period represents contributions payable by the group to the funds and amounted to £134,975 (2000: £74,290)

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes (continued)

21 Reconciliation of operating profit to operating cash flows

	2001 £	2000 £
Operating profit	7,300,845	4,551,593
Depreciation	815,826	623,572
Profit on sale of fixed assets	(5,900)	(6,801)
Decrease in stocks	23,831	35,310
Increase in debtors	(2,044,727)	(1,065,671)
Increase in creditors	5,630,052	3,041,313
	<u> </u>	<u> </u>
Net cash inflow from operating activities	11,719,928	7,179,316
	<u> </u>	<u> </u>

22 Analysis of cash flows

	<i>Notes</i>	2001 £	2001 £	2000 £	2000 £
Returns on investment and servicing of finance					
Interest received			529,717		187,319
			<u> </u>		<u> </u>
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(2,486,210)		(871,689)	
Sale of tangible fixed assets		5,900		6,801	
		<u> </u>	(2,480,310)	<u> </u>	(864,888)
			<u> </u>		<u> </u>
Management of liquid resources					
Cash transferred to short-term deposit		(6,376,168)		(4,985,999)	
		<u> </u>	(6,376,168)	<u> </u>	(4,985,999)
			<u> </u>		<u> </u>
Financing					
Issue of ordinary share capital		-		25,167	
		<u> </u>	-	<u> </u>	25,167
			<u> </u>		<u> </u>

Notes *(continued)*

23 Analysis of net funds

	At beginning of year £	Cash flow £	Exchange movement £	At end of year £
Cash in hand, at bank	464,797	361,020	29,711	855,528
Short term deposits	6,585,999	6,376,168	-	12,962,167
Total	7,050,796	6,737,188	29,711	13,817,695

24 Related party disclosures

The company shares premises, printing, management and marketing services with Virus Bulletin Limited, a company in which Peter Lammer and Jan Hruska have interests. A contribution of £104,000 (2000: £90,320) to the costs of such services was receivable by Sophos Plc in the year. At 31 March 2001 an amount of £103,288 (2000: £90,320) was due to Sophos Plc from Virus Bulletin Limited