

**Sophos Plc**

Directors' report and consolidated  
financial statements

Registered number 2096520

31 March 2003

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

### Principal activities

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

### Business review and future plans

Bookings increased by 34% to £48,600,000 (2002: £36,303,000) reflecting the group's success in winning and retaining customers. Turnover increased by 30% from the prior year. Further international expansion led to a 50% growth in revenue outside the UK and continental Europe. There was a profit for the year after taxation of £10,050,000 (2002: £6,327,000).

In May 2002, TA Associates, a US private equity company, acquired from existing shareholders 22% of the issued share capital of the company. During the year the group continued to invest in and develop its existing international operations. The group will continue to exploit market opportunities throughout the world.

### Research and development

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

### Proposed dividend and transfer to reserves

No interim dividend has been paid in the year (2002: £1,898,000 paid on 14 May 2002). The directors recommend the payment of a final dividend of £2,004,000 (2002: £nil). Total dividends for the year are £2,004,000 (2002: £1,898,000), leaving retained profits of £8,046,000 (2002: £4,429,000).

### Market value of land and buildings

In the opinion of the directors, the market value of the freehold land and buildings of the group does not differ significantly from the book values of these assets. As reflected in note 9, the group is in the course of constructing a new headquarters building; the directors do not consider it practical to form an opinion on the market value of the part-completed building.

### Policy and practice on payment of creditors

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

At the year-end there were 9 days (2002: 10 days) purchases in trade creditors.

### Employment policies

The group operates in a number of countries and it endeavours to vary its employment practices to meet local conditions and requirements. It is group policy to ensure equal opportunity for employment of disabled people, ethnic minorities and women. Wherever possible, the employment of staff members who become disabled will be continued and appropriate training and career development will be offered.

A key objective for the group is to achieve a shared commitment by all employees to the success of the business. Throughout the group, there is consultation between employees and management on matters of mutual interest and information is disseminated through in-house newsletters, the group Intranet, individual performance reviews and team or company briefings. Employees are encouraged to promote and participate in the progress and profitability of the group through profit bonus and other incentive schemes. An employee share purchase scheme is being established and is scheduled to be implemented in the forthcoming year.

### Political and charitable donations

The group made no political donations during the year. Contributions to local charities totalled £500 (2002: £500).

## 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:

	<b>Interest at end of year £0.001 shares</b>	<b>Interest at start of year £1 shares</b>
Dr Peter Lammer	22,299,840	25,056
Dr Jan Hruska	22,299,840	25,056
Mr Peter Norman	40,000	40
Mr Mark Forrest	-	-
Mr Richard Jacobs	505,000	505
Mr Ajit Nedungadi (appointed 15 May 2002)	-	-

During the year the share capital of the company was reorganised and each of the authorised and issued £1 shares were replaced by 1,000 £0.001 shares.

### Auditors

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

On behalf of the board

**Dr Peter Lammer**  
*Director*

The Pentagon  
Abingdon Science Park  
Abingdon  
Oxon  
OX14 3YP  
12 June 2003

## **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.



## KPMG LLP

Arlington Business Park  
Theale  
Reading  
RG7 4SD

### **Independent auditors' report to the members of Sophos Plc**

We have audited the financial statements on pages 5 to 21.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **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 1985. 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 2003 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 LLP**  
*Chartered Accountants*  
*Registered Auditor*

12 June 2003

## Consolidated profit and loss account

for the year ended 31 March 2003

	<i>Note</i>	<b>2003</b> <b>£000</b>	2002 £000
<b>Turnover</b>	2	<b>40,959</b>	31,582
Cost of sales		<b>(1,259)</b>	(1,197)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>39,700</b>	30,385
Administrative expenses		<b>(28,153)</b>	(21,411)
Other operating income	23	<b>153</b>	106
		<hr/>	<hr/>
<b>Operating profit</b>		<b>11,700</b>	9,080
Interest receivable	6	<b>392</b>	676
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	2-5	<b>12,092</b>	9,756
Tax on profit on ordinary activities	7	<b>(2,042)</b>	(3,429)
		<hr/>	<hr/>
<b>Profit for the financial year</b>		<b>10,050</b>	6,327
Dividends paid and proposed	8	<b>(2,004)</b>	(1,898)
		<hr/>	<hr/>
<b>Retained profit for the year</b>	17	<b>8,046</b>	4,429
		<hr/> <hr/>	<hr/> <hr/>

The results stated above all derived from continuing operations.

The accounts have been prepared on an unmodified historical cost basis.

## Consolidated statement of total recognised gains and losses

for the year ended 31 March 2003

	<b>2003</b> <b>£000</b>	2002 £000
<b>Profit for financial year</b>	<b>10,050</b>	6,327
Translation differences on foreign currency net investments	<b>(221)</b>	(1)
	<hr/>	<hr/>
<b>Total gains and losses recognised for the year</b>	<b>9,829</b>	6,326
	<hr/> <hr/>	<hr/> <hr/>

## Consolidated balance sheet

at 31 March 2003

	<i>Note</i>	<b>2003</b>	<b>2003</b>	2002	2002
		<b>£000</b>	<b>£000</b>	£000	£000
<b>Fixed assets</b>					
Tangible assets	9		<b>33,963</b>		15,687
<b>Current assets</b>					
Stocks	11	<b>58</b>		45	
Debtors	12	<b>8,635</b>		6,833	
Cash at bank and in hand		<b>11,754</b>		16,244	
		<hr/>		<hr/>	
<b>Creditors:</b> amounts falling due within one year	13	<b>20,447</b>	<b>(22,477)</b>	23,122	(18,854)
		<hr/>		<hr/>	
<b>Net current (liabilities)/assets</b>			<b>(2,030)</b>		4,268
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>31,933</b>		19,955
<b>Creditors:</b> amounts falling due after more than one year	14		<b>(8,580)</b>		(5,085)
<b>Provisions for liabilities and charges</b>	15		<b>(959)</b>		(301)
			<hr/>		<hr/>
<b>Net assets</b>			<b>22,394</b>		14,569
			<hr/> <hr/>		<hr/> <hr/>
<b>Capital and reserves</b>					
Called up share capital	16		<b>64</b>		64
Share premium account	17		<b>111</b>		111
Profit and loss account	17		<b>22,219</b>		14,394
			<hr/>		<hr/>
<b>Equity shareholders' funds</b>			<b>22,394</b>		14,569
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 12 June 2003 and were signed on its behalf by:

**Dr Peter Lammer**  
*Director*

## Company balance sheet

at 31 March 2003

	<i>Note</i>	<b>2003</b> <b>£000</b>	<b>2003</b> <b>£000</b>	2002 £000	2002 £000
<b>Fixed assets</b>					
Tangible assets	<i>9</i>		<b>33,482</b>		15,272
Investments	<i>10</i>		<b>110</b>		110
			<hr/>		<hr/>
			<b>33,592</b>		15,382
<b>Current assets</b>					
Stocks	<i>11</i>	<b>58</b>		45	
Debtors	<i>12</i>	<b>11,238</b>		8,326	
Cash at bank and in hand		<b>7,445</b>		14,484	
			<hr/>	<hr/>	
		<b>18,741</b>		22,855	
<b>Creditors:</b> amounts falling due within one year	<i>13</i>	<b>(19,230)</b>		(15,426)	
			<hr/>	<hr/>	
<b>Net current (liabilities)/assets</b>			<b>(489)</b>		7,429
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			<b>33,103</b>		22,811
<b>Creditors:</b> amounts falling due after more than one year	<i>14</i>		<b>(8,231)</b>		(3,872)
<b>Provisions for liabilities and charges</b>	<i>15</i>		<b>(812)</b>		(202)
			<hr/>		<hr/>
<b>Net assets</b>			<b>24,060</b>		18,737
			<hr/> <hr/>		<hr/> <hr/>
<b>Capital and reserves</b>					
Called up share capital	<i>16</i>		<b>64</b>		64
Share premium account	<i>17</i>		<b>111</b>		111
Profit and loss account	<i>17</i>		<b>23,885</b>		18,562
			<hr/>		<hr/>
<b>Equity shareholders' funds</b>			<b>24,060</b>		18,737
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 12 June 2003 and were signed on its behalf by:

**Dr Peter Lammer**  
*Director*

## Consolidated cash flow statement

for the year ended 31 March 2003

	<i>Note</i>	<b>2003</b> <b>£000</b>	2002 £000
<b>Cash flow statement</b>			
<b>Cash flow from operating activities</b>	20	<b>19,652</b>	14,225
<b>Return on investments and servicing of finance</b>	21	<b>392</b>	676
<b>Taxation</b>		<b>(2,923)</b>	(3,390)
<b>Capital expenditure and financial investment</b>	21	<b>(19,720)</b>	(7,916)
<b>Equity dividends paid</b>		<b>(1,898)</b>	(1,165)
		<hr/>	<hr/>
Cash (outflow)/inflow before management of liquid resources		<b>(4,497)</b>	2,430
<b>Management of liquid resources</b>	21	<b>8,147</b>	(2,527)
		<hr/>	<hr/>
<b>Increase/(decrease) in cash in the period</b>		<b>3,650</b>	(97)
		<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of net cash flow to movement in net funds</b>			
<b>Increase/(decrease) in cash in the period</b>	22	<b>3,650</b>	(97)
Cash (outflow)/inflow from liquid resources	22	<b>(8,147)</b>	2,527
		<hr/>	<hr/>
Change in net funds resulting from cash flows		<b>(4,497)</b>	2,430
Exchange differences	22	<b>7</b>	(4)
		<hr/>	<hr/>
<b>Movement in net funds in the period</b>		<b>(4,490)</b>	2,426
<b>Net funds at the start of the period</b>		<b>16,244</b>	13,818
		<hr/>	<hr/>
<b>Net funds at the end of the period</b>		<b>11,754</b>	16,244
		<hr/> <hr/>	<hr/> <hr/>

## Reconciliations of movements in shareholders' funds

*for the year ended 31 March 2003*

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
<b>Profit for the financial year</b>	<b>10,050</b>	6,327	<b>7,327</b>	7,722
Dividends	<b>(2,004)</b>	(1,898)	<b>(2,004)</b>	(1,898)
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>8,046</b>	4,429	<b>5,323</b>	5,824
Exchange differences	<b>(221)</b>	(1)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net addition to shareholders' funds</b>	<b>7,825</b>	4,428	<b>5,323</b>	5,824
Opening shareholders' funds	<b>14,569</b>	10,141	<b>18,737</b>	12,913
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>22,394</b>	14,569	<b>24,060</b>	18,737
	<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 2003. 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 proportionally to the initial software supply and the ongoing provision of upgrades and services. 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.

Where the group contracts with a service provider rather than an end user, it mirrors the above policy and defers the revenue attributable to updates and services in line with the licence term granted to the end user.

#### ***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	-	33 $\frac{1}{3}$ % 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.

Buildings in the course of construction include direct construction costs, legal and professional fees and any other costs directly attributable to bringing them into their intended working condition. No depreciation will be provided on such buildings until they are occupied.

## **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***

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. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### ***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**

	<b>2003</b>	2002
<b>Turnover</b>	<b>£000</b>	£000
United Kingdom	<b>16,953</b>	14,981
United States of America	<b>9,122</b>	7,293
Continental Europe	<b>10,224</b>	7,396
Rest of the World	<b>4,660</b>	1,912
	<hr/> <b>40,959</b> <hr/>	<hr/> 31,582 <hr/>

In the opinion of the directors the disclosure of profit before interest and tax and net assets by geographical segment as required by SSAP 25 'Segmental analysis' would be seriously prejudicial to the interest of the company and therefore this information has not been disclosed.

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

**3 Profit on ordinary activities before taxation**

	<b>2003</b>	2002
<i>Profit on ordinary activities before taxation is stated</i>	<b>£000</b>	£000
<i>after charging:</i>		
Auditors' remuneration:		
- audit (including in respect of company £12,000; 2002: £10,000)	<b>25</b>	17
- fees paid to the auditor and its associates in respect of other services	<b>24</b>	68
Depreciation and other amounts written off tangible fixed assets	<b>1,082</b>	1,134
Hire of plant and machinery - rentals payable under operating leases	<b>170</b>	112
Hire of other assets - operating leases	<b>691</b>	421
Research and development expenditure	<b>3,374</b>	2,873
<i>after crediting:</i>		
Profit on sale of fixed assets	<b>6</b>	5
	<hr/> <b>6</b> <hr/>	<hr/> 5 <hr/>

**4 Remuneration of directors**

	<b>2003</b>	2002
	<b>£000</b>	£000
Directors' emoluments	<b>554</b>	550
Amounts receivable under long term incentive schemes	<b>120</b>	65
Company contributions to money purchase pension schemes	<b>5</b>	14
	<hr/> <b>679</b> <hr/>	<hr/> 629 <hr/>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £281,000 (2002: £229,000), and company pension contributions of £2,000 (2002: £2,000) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to the following number of directors under:

	<b>Number of directors</b>	
	<b>2003</b>	2002
Money purchase schemes	<b>2</b>	4
	<hr/> <b>2</b> <hr/>	<hr/> 4 <hr/>

**Notes** *(continued)*

**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:

	<b>Number of employees</b>	
	<b>2003</b>	2002
Technical	193	142
Sales and marketing	164	112
Administration	62	47
	<b>419</b>	301

The aggregate payroll costs of these persons were as follows:

	<b>2003</b>	2002
	<b>£000</b>	£000
Wages and salaries	15,599	10,195
Social security costs	1,735	1,108
Other pension costs	402	228
	<b>17,736</b>	11,531

**6 Interest receivable**

	<b>2003</b>	2002
	<b>£000</b>	£000
Bank interest receivable	392	676
	<b>392</b>	676

**7 Taxation**

	<b>2003</b>	2002
	<b>£000</b>	£000
<i>UK corporation tax</i>		
Current tax on income for the period at 30% (2002: 30%)	1,872	3,435
Adjustments in respect of prior periods	(708)	23
	<b>1,164</b>	3,458
<i>Foreign tax</i>		
Current tax on income for the period	268	-
	<b>268</b>	-
Total current tax	1,432	3,458
Deferred tax (see note 15)	610	(29)
	<b>2,042</b>	3,429

**Notes** (continued)

**7 Taxation** (continued)

*Factors affecting the tax charge for the current period*

The current tax charge for the period is lower (2002: *higher*) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below.

	<b>2003</b>	2002
	<b>£000</b>	£000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	<b>12,092</b>	9,756
	<hr/>	<hr/>
Current tax at 30% (2002: 30%)	<b>3,628</b>	2,927
<i>Effects of:</i>		
Expenses not deductible for tax purposes	<b>228</b>	32
Depreciation for period (less than)/in excess of capital allowances	<b>(542)</b>	29
Depreciation on assets not qualifying for capital allowances	<b>29</b>	29
(Utilised)/unutilised tax losses from group companies	<b>(578)</b>	418
Higher tax rates on overseas earnings	<b>72</b>	-
R&D and other tax credits	<b>(336)</b>	-
Timing difference on overseas deferred income	<b>(361)</b>	-
Adjustments to tax charge in respect of previous periods	<b>(708)</b>	23
	<hr/>	<hr/>
Total current tax charge (see above)	<b>1,432</b>	3,458
	<hr/>	<hr/>

**8 Dividends paid and proposed**

	<b>2003</b>	2002
	<b>£000</b>	£000
<i>Interim dividends:</i>		
Ordinary shares	-	1,511
Preference shares	-	387
Convertible preferred ordinary shares	-	-
<i>Final dividends:</i>		
Ordinary shares	<b>1,562</b>	-
Preference shares	-	-
Convertible preferred ordinary shares	<b>442</b>	-
	<hr/>	<hr/>
	<b>2,004</b>	1,898
	<hr/>	<hr/>

**Notes** (continued)

**9 Tangible fixed assets**

Group	Freehold land and buildings £000	Buildings in course of construction £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
<b>Cost</b>						
At beginning of year	5,865	9,502	3,839	116	471	19,793
Additions	1	18,583	564	158	46	19,352
Disposals	-	-	(2)	(11)	(36)	(49)
Exchange movement	-	-	6	5	(2)	9
At end of year	5,866	28,085	4,407	268	479	39,105
<b>Depreciation</b>						
At beginning of year	866	-	2,857	73	310	4,106
Charge for year	177	-	784	56	65	1,082
On disposals	-	-	(2)	(7)	(35)	(44)
Exchange movement	-	-	2	2	(6)	(2)
At end of year	1,043	-	3,641	124	334	5,142
<b>Net book value</b>						
<b>At 31 March 2003</b>	<b>4,823</b>	<b>28,085</b>	<b>766</b>	<b>144</b>	<b>145</b>	<b>33,963</b>
At 31 March 2002	4,999	9,502	982	43	161	15,687

Within freehold land and buildings the gross cost, which is depreciable, is £4,427,000 (2002: £4,426,000)

Company	Freehold land and buildings £000	Buildings in course of construction £000	Plant and machinery £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
<b>Cost</b>						
At beginning of year	5,865	9,502	3,076	74	227	18,744
Additions	1	18,583	312	37	24	18,957
At end of year	5,866	28,085	3,388	111	251	37,701
<b>Depreciation</b>						
At beginning of year	866	-	2,410	57	139	3,472
Charge for year	177	-	524	16	30	747
At end of year	1,043	-	2,934	73	169	4,219
<b>Net book value</b>						
<b>At 31 March 2003</b>	<b>4,823</b>	<b>28,085</b>	<b>454</b>	<b>38</b>	<b>82</b>	<b>33,482</b>
At 31 March 2002	4,999	9,502	666	17	88	15,272

Within freehold land and buildings, the gross cost which is depreciable is £4,427,000 (2002: £4,426,000).

**Notes** (continued)

**10 Fixed asset investments**

<b>Company</b>	<b>Shares in group undertakings £000</b>
<i>Cost</i>	
At beginning and end of year	110

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

<i>Subsidiary undertakings</i>	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Class of shares held</b>	<b>Percentage of shares held</b>
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%
Sophos Srl	Italy	Selling software for computer security	Ordinary	100%
Sophos Anti-Virus Asia Pte Ltd	Singapore	Selling software for computer security	Ordinary	100%

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

**11 Stocks**

	<b>Group</b>		<b>Company</b>	
	<b>2003 £000</b>	2002 £000	<b>2003 £000</b>	2002 £000
Finished goods and goods for resale	<b>58</b>	45	<b>58</b>	45

**12 Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2003 £000</b>	2002 £000	<b>2003 £000</b>	2002 £000
Trade debtors	<b>7,981</b>	6,252	<b>4,407</b>	4,017
Amounts owed by group undertakings	-	-	<b>6,665</b>	4,137
Other debtors	<b>437</b>	367	<b>103</b>	107
Prepayments	<b>217</b>	214	<b>63</b>	65
	<b>8,635</b>	6,833	<b>11,238</b>	8,326

Within Group other debtors is an amount of £202,000 (2002: £nil) that is due after one year.

**Notes** (continued)

**13 Creditors: amounts falling due within one year**

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade creditors	2,308	422	1,862	230
Amounts owed to group undertakings	-	-	44	-
Corporation tax	280	1,772	12	1,772
Social security and other taxes	843	888	307	621
Other creditors	34	25	-	-
Dividends proposed	2,004	1,898	2,004	1,898
Accruals and deferred income	17,008	13,849	15,001	10,905
	<u>22,477</u>	<u>18,854</u>	<u>19,230</u>	<u>15,426</u>

**14 Creditors: amounts falling due after more than one year**

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Accruals and deferred income	8,580	5,085	8,231	3,872
	<u>8,580</u>	<u>5,085</u>	<u>8,231</u>	<u>3,872</u>

**15 Provisions for liabilities and charges**

Group	Vacant property £000	Deferred tax £000	Total £000
At beginning of year	99	202	301
Amounts provided during the year	48	610	658
At end of year	<u>147</u>	<u>812</u>	<u>959</u>
<b>Company</b>			<b>Deferred tax £000</b>
At beginning of year			202
Amounts provided during the year			610
At end of year			<u>812</u>

The vacant property provision is the excess of a residual lease commitment over any anticipated rental income on property no longer occupied by a subsidiary.

The deferred tax liability is due to the timing difference between accumulated depreciation and capital allowances and is fully provided for. No discounting is applied. No deferred tax asset has been recognised on unutilised tax losses of group companies. The group does not recognise deferred tax assets on a subsidiary's tax losses until such time as utilisation is reasonably assured.

**Notes** (continued)

**16 Called up share capital**

	2003		2002	
	Number	£000	Number	£000
<i>Authorised</i>				
Ordinary shares of £0.001 each	8,000,000,000	8,000	-	-
B Ordinary shares of £0.001 each	1,000,000,000	1,000	-	-
Convertible Preferred Ordinary shares of £0.001 each	1,000,000,000	1,000	-	-
Ordinary shares of £1 each	-	-	9,000,000	9,000
Preference shares of £1 each	-	-	1,000,000	1,000
		<u>10,000</u>		<u>10,000</u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £0.001 each	49,594,680	50	-	-
Convertible Preferred Ordinary shares of £0.001 each	14,022,320	14	-	-
Ordinary shares of £1 each	-	-	50,657	51
Preference shares of £1 each	-	-	12,960	13
		<u>64</u>		<u>64</u>

On 15 May 2002 the company adopted new Articles of Association and the members passed a number of other written resolutions, the primary object of which was to reorganise the share capital of the company. All classes of shares are equity shares and rank pari passu for any dividend declared by the company. On a Qualifying Listing or at the election of the holders, the Convertible Preferred Ordinary Shares convert into Ordinary Shares on a one-for-one basis. The Convertible Preferred Ordinary Shares also carry priority over the assets of the company available for distribution in a winding up or other return of capital.

Prior to 15 May 2002, both classes of share were equity shares. The preference shares carried entitlement to a dividend of 30% of the attributable profit. The attributable profit represented 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 were entitled to a dividend equal to the dividend paid to the preference shareholders. Preference shareholders had 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 would be distributed equally between the preference and ordinary shareholders.

**17 Reserves**

Group	Share premium £000	Profit and loss account £000	Total reserves £000
At beginning of year	111	14,394	14,505
Retained profit for the year	-	8,046	8,046
Exchange differences	-	(221)	(221)
	<u>111</u>	<u>22,219</u>	<u>22,330</u>

**Notes** (continued)

**17 Reserves** (continued)

Company	Share premium £000	Profit and loss account £000	Total reserves £000
At beginning of year	111	18,562	18,673
Retained profit for the year	-	5,323	5,323
	<u>111</u>	<u>23,885</u>	<u>23,996</u>

**18 Commitments and contingencies**

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

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Contracted but not provided for	<u>4,863</u>	<u>21,134</u>	<u>4,859</u>	<u>21,124</u>

(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.

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

Group	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	40	16	20	11
In the second to fifth years inclusive	538	100	565	77
Over five years	-	-	38	-
	<u>578</u>	<u>116</u>	<u>623</u>	<u>88</u>

Company	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	13	-	10
In the second to fifth years inclusive	-	29	-	39
	<u>-</u>	<u>42</u>	<u>-</u>	<u>49</u>

(d) Legal proceedings have been initiated against a group company. It is not yet practical to estimate anything other than modest costs, which have been provided for in these accounts.

**Notes** *(continued)*

**19 Pension scheme**

The group contributes to money purchase personal pension schemes in the UK and to similar or state pension schemes overseas for the benefit of the employees and directors. The assets of the schemes are administered by trusts or by other bodies 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 £402,000 (2002: £228,000)

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

**20 Reconciliation of operating profit to operating cash flows**

	<b>2003</b>	2002
	<b>£000</b>	£000
Operating profit	11,700	9,080
Depreciation	1,082	1,134
Profit on sale of fixed assets	(6)	(5)
Decrease in stocks	(13)	(8)
Increase in debtors	(1,833)	(1,186)
Increase in creditors	8,674	5,111
Increase in provisions	48	99
	<b>19,652</b>	14,225
<b>Net cash inflow from operating activities</b>	<b>19,652</b>	14,225

**21 Analysis of cash flows**

	<i>Notes</i>	<b>2003</b>	<b>2003</b>	2002	2002
		<b>£000</b>	<b>£000</b>	£000	£000
<b>Returns on investment and servicing of finance</b>					
Interest received	6		392		676
			392		676
<b>Capital expenditure</b>					
Purchase of tangible fixed assets	9	(19,730)		(7,927)	
Sale of tangible fixed assets		10		11	
		10	(19,720)	11	(7,916)
			(19,720)		(7,916)
<b>Management of liquid resources</b>					
Cash transferred to short-term deposit	22		8,147		(2,527)
			8,147		(2,527)

**Notes** *(continued)*

**22 Analysis of net funds**

	At beginning of year £000	Cash flow £000	Exchange movement £000	At end of year £000
Bank current accounts	755	3,650	7	4,412
Short term deposits with banks	15,489	(8,147)	-	7,342
	<u>16,244</u>	<u>(4,497)</u>	<u>7</u>	<u>11,754</u>

**23 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 £153,000 (2002: £106,000) to the costs of such services was receivable by the company in the year. In addition Virus Bulletin Limited invoiced Sophos group companies £25,000 (2002: £26,000) for subscriptions and conference fees and Sophos group companies invoiced Virus Bulletin Limited £5,000 (2002: £nil) for conference marketing expenses. At 31 March 2003 an amount of £104,000 (2002: £106,000) was due to the company from Virus Bulletin Limited.