Harbinger UK Limited

Directors' report and financial statements

Registered Number 2942785

Year ended 31 December 1999

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activities

The principal activity of the group is the provision of information technology.

Business review

The group achieved turnover of £4,543,924 (1998: £1,753,990) and made a loss before tax of £661,800 (1998: £414,246)

Proposed dividend and transfer reserves

The directors paid an interim dividend of £nil on the equity shares (1998: £61,281) and do not propose a final dividend.

The retained deficit for the year transferred to reserves is £661,800 (1998: £474,097)

Directors and directors' interests

The directors who held office during the year and after the year were as follows:

P J Bird	(resigned 1 June 1999)
D Leach	(resigned 21 June 1999)
T E Ciochon	(resigned 1 November 1997)
W J Van Nieuwenhuyzen	(resigned 21 June 1999)
S Coussins	(resigned 31 January 2001)
JR Crook	(appointed 23 November 2000, resigned
J Travers	(resigned 16 October 2000)
E Wilson	(appointed 31 March 2001)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

By order of the board

E Wilson
Director

Quay West
Trafford Wharf Road
Wharfside
Manchester, M17 1HH

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 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 company and to prevent and detect fraud and other irregularities.

KPMG

PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Report of the auditors to the members of Harbinger UK Limited

We have audited the financial statements on pages 4 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2 , 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 group 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 audit 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 the group and company's affairs as at 31 December 1999 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 1/8/01

Chartered Accountants
Registered Auditors

Consolidated profit and loss account

for the year ended 31 December 1999

	Note	1999 £	1998 £
Turnover	1	**4,543,924**	1,753,990
Cost of sales		**(852,662)**	(535,213)
Gross profit		**3,691,262**	1,218,777
Distribution expenses		**(560,030)**	(126,231)
Administrative expenses		**(3,804,209)**	(1,500,870)
Operating Loss	2-4	**(672,977)**	(408,324)
Interest receivable and similar income	5	**11,881**	8,011
Interest payable and similar charges	6	**(704)**	(13,933)
Loss on ordinary activities before taxation		**(661,800)**	(414,246)
Tax on profit on ordinary activities	7	**-**	1,430
Loss for the financial year		**(661,800)**	(412,816)
Dividends paid and proposed	8	**-**	(61,281)
Retained loss for the financial year		**(661,800)**	(474,097)

The group has no recognised gains or losses other than the result for both the current and preceding years.

There is no difference between the loss on ordinary activities before taxation and the deficit for the financial period presented above and the historical cost equivalent.

A statement of movements on reserves is given in note 15.

The profit and loss account relates only to continuing operations.

Consolidated balance sheet
at 31 December 1999

	Notes	1999 £	1999 £	1998 £	1998 £
Fixed assets					
Tangible assets	*9*		**624,873**		287,467
Current assets					
Debtors	*12*	**1,289,689**		1,820,566	
Cash at bank and in hand		**196,441**		605,207	
		1,486,130		2,425,773	
Creditors: amounts falling due within one year	*13*	**(2,516,632)**		(2,457,069)	
Net current liabilities			**(1,030,502)**		(31,296)
Net (liabilities)/assets			**(405,629)**		256,171
Capital and reserves					
Called up share capital	*14*		**187,661**		187,661
Share premium account	*15*		**374,353**		374,353
Capital redemption reserve	*15*		**85,000**		85,000
Profit and loss account	*15*		**(1,052,643)**		(390,843)
Equity shareholders' funds	*16*		**(405,629)**		256,171

These financial statements were approved by the board of directors on 17 July 2001 and were signed on its behalf by:

E Wilson

Director

Company balance sheet

at 31 December 1999

	Note		1999		1998
		£	£	£	£
Fixed assets					
Tangible fixed assets	*9*		**624,873**		287,467
Investments	*10*		**97,947**		97,947
Intangible fixed assets	*11*		**195,659**		391,318
			918,479		776,732
Current assets					
Debtors	*12*	**1,289,689**		1,820,566	
Cash at bank and in hand		**196,441**		605,207	
		1,486,130		2,425,773	
Creditors: amounts falling due within one year	*13*	**(2,614,579)**		(2,555,016)	
Net current liabilities			**(1,128,449)**		(129,243)
Net (liabilities)/assets			**(209,970)**		647,489
Capital and reserves					
Called up share capital	*14*		**187,661**		187,661
Share premium account	*15*		**374,353**		374,353
Capital redemption reserve	*15*		**85,000**		85,000
Profit and loss account	*15*		**(856,984)**		475
Equity Shareholders' funds	*16*		**(209,970)**		647,489

These financial statements were approved by the board of directors on 17 July 2000 and were signed on its behalf by:

E Wilson

Director

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 company's financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with applicable accounting standards and under the historical cost accounting rules as modified by the revaluation of investments in subsidiaries.

The group is dependent on its ultimate parent company for its working capital. The parent company has confirmed that it will continue to make such financial support available as is necessary for the group to continue trading for the foreseeable future.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a subsidiary of Harbinger Corporation Inc who control more than 90% of the voting rights, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

The consolidated financial statements of Harbinger Corporation Inc, within which the company is included, can be obtained from the address given in note 19.

Basis of consolidation

The group accounts consolidate the accounts of Harbinger UK Limited and all its subsidiary undertakings. The consolidated accounts are based on accounts of subsidiary undertakings so as to include the results for a year coterminous with that of the parent company.

Unless otherwise stated, 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 or to the date effective control passes.

Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is amortised over a period of two years. Any excess of the fair value of the separable net assets acquired over the fair value of the consideration given (negative goodwill) is credited direct to reserves.

In accordance with Section 230(4) of the Companies Act 1985, Harbinger UK Limited is exempt from the requirement to present its own profit and loss account. The amount of the loss for the financial year dealt with in the financial statements of Harbinger UK Limited is disclosed in note 15 to these accounts.

Notes *(continued)*

1 Accounting policies *(continued)*

Fixed assets and depreciation

Depreciation is provided by the company 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:

Leasehold improvements	-	over the term of the lease
Motor vehicles	-	4 years
Computer equipment	-	3 to 5 years
Office fixtures and fittings	-	3 to 5 years

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.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pensions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting year.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

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

For software licences, the revenue is recognised on delivery of the key or upon ascertainment that no significant obligations pertaining to the sale of the software exist.

For maintenance contracts, the revenue is recognised over the period of the contract on a straight line basis.

2 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging		**1999** **£**	1998 £
Auditors remuneration (group and company):			
	- audit	**14,000**	12,000
	- other services	**6,000**	5,350
Depreciation	- owned assets	**238,194**	81,092
	- leased assets	**-**	6,547
Amortisation		**195,659**	-
Loss on sale of fixed assets		**-**	19,618
Operating lease rentals:			
Office machinery		**15,461**	2,299
Motor vehicles		**90,139**	14,301
Land and buildings		**148,116**	19,950

3 Remuneration of directors

	1999 **£**	1998 £
Directors' emoluments:		
As directors	**99,790**	68,731

Notes *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	1999	1998
Engineering/production/test station/consultancy	**37**	26
Sales	**10**	9
Administration	**9**	8
	56	43

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£	£
Wages and salaries	**1,907,035**	961,582
Social security costs	**205,042**	106,154
Other pension costs (see note 18)	**8,587**	10,571
	2,120,664	1,078,307

5 Interest receivable and similar income

	1999	1998
	£	£
Interest receivable	**11,881**	8,011

6 Interest payable and similar charges

	1999	1998
	£	£
On bank interest and other loans	**107**	8,086
Finance lease charges	**597**	5,847
Exchange loss	**704**	13,933

Notes *(continued)*

7 Taxation

	1999 £	1998 £
Mainstream corporation tax at 31% (1998: 31%) on current year profits	-	-
Over provision in prior year	-	(1,430)
	-	(1,430)

8 Dividends

	1999 £	1998 £
On equity shares		
Interim paid	-	61,281
	-	61,281

Notes *(continued)*

9 Tangible fixed assets

Group	Leasehold Improvements £	Computer equipment £	Office fixtures and fittings £	Motor vehicles £	Total £
Cost					
At beginning of year	-	327,818	129,339	3,000	460,157
Additions	52,632	413,892	109,076	-	575,600
Transfers	10,095	(4,611)	(5,484)	-	-
At end of year	62,727	737,099	232,931	3,000	1,035,757
Depreciation					
At beginning of year	-	147,835	21,855	3,000	172,690
Charge for year	28,378	172,744	37,072	-	238,194
At end of year	28,378	320,579	58,927	3,000	410,884
Net book value					
At 31 December 1999	**34,349**	**416,520**	**174,004**	**-**	**624,873**
At 31 December 1998	-	179,983	107,484	-	287,467

The net book value of tangible fixed assets includes an amount of £nil *(1998: £nil)* in respect of assets held under financing arrangements. Depreciation charged on these assets was £ nil (*1998: £6,547*).

Notes *(continued)*

9 Tangible fixed assets *(continued)*

Company	Leasehold Improvements £	Computer equipment £	Office fixtures and fittings £	Total £
Cost				
At beginning of year	-	179,983	107,484	287,467
Additions	52,632	413,892	109,076	575,600
Transfers	10,095	(4,611)	(5,484)	-
At end of year	62,727	589,264	211,076	863,067
Depreciation				
At beginning of year	-	-	-	-
Charge for year	28,378	172,744	37,072	238,194
At end of year	28,378	172,744	37,072	238,194
Net book value				
At 31 December 1999	**34,349**	**416,520**	**174,004**	**624,873**
At 31 December 1998	-	179,983	107,484	287,467

10 Fixed asset investments

Company	Shares in subsidiary undertakings
Cost	
At beginning and end of year	97,947

Last year he company acquired several subsidiary undertakings. The trade and net assets of these subsidiary undertakings were subsequently transferred to the company at their book value which was equal to the fair value of the net assets acquired (as reflected in the price paid by the company for the subsidiary undertakings). Also transferred to the company were the trade and net assets of the existing subsidiary. Part of the company's cost of investment in the existing subsidiary undertaking was accordingly reallocated so as to recognise the goodwill transferred.

This is not in accordance with Schedule 4 to the Companies Act 1985 which requires the purchase price of an asset to be based on the actual price paid. Had the requirements of the Act been followed, the diminution in value of the investment arising from the transfer of the businesses at less than fair value would have had to be recognised as a loss.

The directors consider that, as there was no overall loss to the company, it would fail to give a true and fair view to charge that diminution to the company's profit and loss account for the year and it should instead be re-allocated to goodwill, so as to recognise in the company's individual balance sheet the effective cost to the company of the goodwill.

10 Fixed asset investment (continued)

The effect of this departure on the current period is to increase the holding company's loss for the year by £195,659.

The subsidiary companies are as follows:

	County of registration or incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Atlas Products International Limited	England and Wales	Dormant	100% ordinary shares
Harbinger Oxon Limited	England and Wales	Dormant	100% ordinary shares
Premenos (UK) Limited	England and Wales	Dormant	100% ordinary shares
EDI Integrated Services Limited	England and Wales	Dormant	100% ordinary shares

11 Intangible fixed assets

Company	**Goodwill £**
Cost	
At beginning and end of period	391,318
Amortisation	
At beginning of period	-
Charged in period	195,659
At end of period	195,659
Net book value **31 December 1999**	**195,659**
31 December 1998	391,318

12 Debtors

	Group		Company	
	1999	1998	**1999**	1998
	£	£		£
Trade debtors	**1,156,037**	1,515,977	**1,156,037**	1,515,977
Other debtors	**19,968**	61,002	**19,968**	61,002
Prepayments and accrued income	**113,684**	243,587	**113,684**	243,587
	1,289,689	1,820,566	**1,289,689**	1,820,566

Notes *(continued)*

13 Creditors: amounts falling due within one year

	Group		Company	
	1999	1998	**1999**	1998
	£	£	**£**	£
Bank loans and overdrafts	**78,502**	-	**78,502**	-
Obligations under finance leases and hire purchase contracts	**-**	1,401	**-**	1,401
Trade creditors	**580,657**	183,861	**580,657**	183,861
Amounts owed to group undertakings	**1,141,028**	1,074,574	**1,238,975**	1,172,521
Other creditors including taxation and social security				
Corporation tax	**-**	61,319	**-**	61,319
Other taxes and social security	**108,244**	133,620	**108,244**	133,620
Other creditors	**3,123**	-	**3,123**	-
Accruals and deferred income	**605,078**	1,002,294	**605,078**	1,002,294
	2,516,632	2,457,069	**2,614,579**	2,555,016

14 Called up share capital

	1999	1998
	£	£
Authorised		
Ordinary shares of £1 each	**1,100,000**	1,100,000
Redeemable ordinary shares of £1 each	**170,000**	170,000
	1,270,000	1,270,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**102,661**	102,661
Redeemable ordinary shares of £1 each	**85,000**	85,000
	187,661	187,661

The redeemable ordinary shares are redeemable at the option of the company. Each of the redeemable ordinary shares carries one vote and has equal voting rights to the ordinary shares in issue.

Notes *(continued)*

15 Share premium and reserves

Group

	Share premium account £	Capital redemption reserve £	Profit and loss account £
At beginning of year	374,353	85,000	(390,843)
Retained deficit for year	-	-	(661,800)
At end of year	**374,353**	**85,000**	**(1,052,643)**

Company

	Share premium account £	Capital redemption reserve £	Profit and loss account £
At beginning of year	374,353	85,000	475
Retained deficit for year	-	-	(857,459)
At end of year	**374,353**	**85,000**	**(856,984)**

16 Reconciliation of movements in shareholders' funds

Group	1999 £	1998 £
Loss for the financial year	**(661,800)**	(412,816)
Dividends	-	(61,281)
Issue of new shares	-	199,599
Net addition to shareholders' funds	**(661,800)**	(274,498)
Opening shareholders' funds	**256,171**	530,669
Closing shareholders' funds	**(405,629)**	256,171

Company	1999 £	1998 £
Loss for the financial year	**(857,459)**	55,939
Dividends	-	(61,281)
Issue of new shares	-	199,599
Net addition to shareholders funds	**(857,459)**	194,257
Opening shareholders funds	**647,489**	453,232
Closing shareholders funds	**(209,970)**	647,489

Notes *(continued)*

17 Commitments

Annual commitments under non-cancellable operating leases as follows:

Group and company

	1999		1998	
	Land and buildings	**Other assets**	Land and buildings	Other assets
	£	**£**	£	£
Operating leases which expire:				
Within one year	**41,744**	**28,021**	-	26,679
In second to fifth years inclusive	**-**	**49,572**	59,578	-
Over five years	**114,000**	**-**	-	-
	155,744	**77,593**	59,578	26,679

18 Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year in respect of these schemes represents contributions payable by the group to the funds.

There was an outstanding contribution of £6,476 relating to the group's pension scheme at the end of the financial year (1998: £nil). Contributions charged to the profit and loss account amounted to £8,587 (1998: £10,571).

19 Ultimate parent company and parent undertaking of larger group

The largest group in which the results of the company are consolidated is that headed by parent undertaking, Harbinger Corporation Inc incorporated in the US. The consolidated financial statements of the group are available to the public and may be obtained from 1277 Lenox Park Boulevard, Atlanta, Georgia, 30319, USA.

On 16 June 2000, Peregrine Connectivity Inc purchased 99.5% of the share capital of Harbinger Corporation Inc and is therefore now the ultimate parent undertaking.