ANDERSEN

Peregrine Systems (No. 2) Limited
(formerly Harbinger UK Limited)

Financial statements 31 March 2001
together with directors' and auditors' reports

Registered number: 2942785

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COMPANIES HOUSE 26/3/02.

DIRECTORS

E.J. Wilson
G.I.P.M.G. Boonen
G.E. Nail

SECRETARY

E.J. Wilson

REGISTERED OFFICE

Quay West
Trafford Wharf Road
Wharfside
Manchester
M17 1HH

AUDITORS

Arthur Andersen
Bank House
9 Charlotte Street
Manchester
M1 4EU

The directors present their annual report on the affairs of the group, together with the financial statements and auditors' report, for the 15 months ended 31 March 2001.

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 of the profit or loss of the company 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Change of name

The company changed its name from Harbinger UK Limited to its present title on 8 October 2001.

Principal activity

The principal activity of the group is the provision of information technology, software licences and related maintenance and consultancy services.

Results and dividends

Results, retained loss and dividends are as follows:

	£
Retained loss at 1 January 2000	(1,052,643)
Loss for the financial period	(2,081,403)
Retained loss at 31 March 2001	(3,134,046)

The directors are unable to recommend the payment of a dividend.

Directors' report (continued)

Directors and their interests

The directors who served during the period or who have been appointed since the financial period end were as follows:

E.J. Wilson	(appointed 31 March 2001)
G.I.P.M.G. Boonen	(appointed 31 October 2001)
G.E. Nail	*(appointed 31 October 2001)*
S.C. Coussins	(resigned 31 January 2001)
J. Travers	(resigned 16 October 2000)
J.P.R. *Crook*	*(appointed 16 October 2000, resigned 31 October 2001)*

The directors have no other interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Auditors

During the period Arthur Andersen were appointed auditors in place of KPMG.

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

G.I.P.M.G. Boonen
Director

20 March 2002

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To the Shareholders of Peregrine Systems (No. 2) Limited

We have audited the financial statements on pages 5 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of 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.

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 circumstances of the company, 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

As explained in Note. 9, the overseas subsidiary undertaking has not been included in the group accounts as required by Financial Reporting Standard 2 and section 227 of the Companies Act 1985.

Except for the failure to include the overseas subsidiary undertaking in the group accounts, in our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 March 2001 and of the group's loss for the 15 months then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

20 March 2002

Consolidated profit and loss account
For the 15 months ended 31 March 2001

	Notes	Continuing operations 15 months ended 31 March 2001 £	Year ended 31 December 1999 (Note 19) £
Turnover		3,869,441	4,543,924
Cost of sales		(654,601)	(852,662)
Gross profit		3,214,840	3,691,262
Other operating expenses (net)	2	(5,282,810)	(4,364,239)
Operating loss		(2,067,970)	(672,977)
Interest receivable and similar income	3	9,722	11,881
Interest payable and similar charges	4	(13)	(704)
Loss on ordinary activities before taxation	5	(2,058,261)	(661,800)
Tax on loss on ordinary activities	7	(23,142)	-
Deficit for the financial period	14,15	(2,081,403)	(661,800)

The company has no recognised gains or losses in either period other than the loss for that financial period.

The accompanying notes are an integral part of this profit and loss account.

Consolidated balance sheet

31 March 2001

	Notes	31 March 2001 £	31 December 1999 (Note 19) £
Fixed assets			
Tangible assets	8	577,133	624,873
Current assets			
Debtors	11	979,238	1,289,689
Cash at bank and in hand		160,920	196,441
		1,140,158	1,486,130
Creditors: Amounts falling due within one year	12	(4,204,323)	(2,516,632)
Net current liabilities		(3,064,165)	(1,030,502)
Net liabilities		(2,487,032)	(405,629)
Capital and reserves			
Called-up share capital	13	187,661	187,661
Share premium account	14	374,353	374,353
Capital redemption reserve	14	85,000	85,000
Profit and loss account	14	(3,134,046)	(1,052,643)
Equity shareholders' deficit	15	(2,487,032)	(405,629)

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

31 March 2001

	Notes	31 March 2001 £	31 December 1999 (Note 19) £
Fixed assets			
Tangible assets	8	577,133	624,873
Investments	9	97,947	97,947
Intangible assets	10	-	195,659
		675,080	918,479
Current assets			
Debtors	11	979,238	1,289,689
Cash at bank and in hand		160,920	196,441
		1,140,158	1,486,130
Creditors: Amounts falling due within one year	12	(4,302,270)	(2,614,579)
Net current liabilities		(3,162,112)	(1,128,449)
Net liabilities		(2,487,032)	(209,970)
Capital and reserves			
Called-up share capital	13	187,661	187,661
Share premium account	14	374,353	374,353
Capital redemption reserve	14	85,000	85,000
Profit and loss account	14	(3,134,046)	(856,984)
Equity shareholders' deficit	15	(2,487,032)	(209,970)

Signed on behalf of the Board

G.I.P.M.G. Boonen
Director

20 March 2002

The accompanying notes are an integral part of this balance sheet.

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period and the preceding year, is set out below.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards, except as discussed in note 9.

The financial statements have been prepared on a going concern basis as the ultimate parent undertaking has confirmed that it will continue to provide any necessary funds to enable the company to continue trading in the foreseeable future.

Having considered the factors referred to above, the directors consider that it is appropriate to adopt the going concern basis for preparing the financial statements. The financial statements do not include any adjustments that might be necessary if the financial support was not forthcoming.

b) Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 31 March 2001 (31 December in 1999) except that its overseas subsidiary undertaking is not consolidated. In the directors' opinion, the information necessary for the preparation of group financial statements including the overseas subsidiary undertaking cannot be obtained without disproportionate expense and undue delay. Except in respect of the overseas subsidiary undertaking the results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed and acquisitions are accounted for under the acquisition method.

c) Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

d) Revenue recognition and deferred income

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.

Consulting and training revenue are recognised when the related services are performed.

For maintenance contracts, the revenue is recognised over the period of the contract on a straight line basis. The amount of deferred income is disclosed separately within creditors: amounts falling due within one year.

1 Accounting policies (continued)

e) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Leasehold improvements	-	over the term of the lease
Computer equipment	-	20 % to 33⅓% straight line
Office fixtures and fittings	-	14.3% straight line
Motor vehicles	-	25% straight line

Residual value is calculated on prices prevailing at the date of acquisition.

The rate of 14.3% is a change from the rates of 20% or 33⅓% used in prior years. The effect of this change on the depreciation charge for the period is not considered to be material.

f) Investments

Fixed asset investments are stated at cost less provision for impairment.

g) Intangible fixed assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is two years. Provision is made for any impairment.

h) Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

i) Leasing

Rentals under operating leases are charged against income on a straight line basis over the lease term, even if the payments are not made on such a basis.

j) Pension costs

The cost of providing retirement pensions under the defined contribution schemes is charged to the profit and loss account as contributions fall due. The difference, if any, between the charge to the profit and loss account and the contributions paid to the schemes is shown as an asset or a liability in the balance sheet.

1 Accounting policies (continued)

k) Taxation

Current tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

2 Other operating expenses (net)

	15 months ended 31 March 2001 £	Year ended 31 December 1999 £
Administrative expenses	(5,282,810)	(4,364,239)

3 Interest receivable and similar income

	15 months ended 31 March 2001 £	Year ended 31 December 1999 £
On bank deposits	9,722	11,881

4 Interest payable and similar charges

	15 months ended 31 March 2001 £	Year ended 31 December 1999 £
On bank loans, overdrafts and other loans	13	107
Finance lease charges	-	597
	13	704

5 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	15 months ended 31 March 2001 £	Year ended 31 December 1999 £
Depreciation and amounts written off tangible fixed assets		
- owned assets	384,586	238,194
Amortisation of goodwill (Note 10)	195,659	195,659
Operating lease rentals		
- plant and machinery	129,629	105,600
- land and buildings	197,772	148,116
Auditors' remuneration		
- audit fees	18,000	14,000
- other	-	6,000

6 Staff costs

The average monthly number of employees (including executive directors) was:

	Number of employees	
	15 months ended 31 March 2001	Year ended 31 December 1999
Engineering/production/test station/consultancy	44	37
Sales	8	10
Administration	9	9
	61	56

6 Staff costs (continued)

The aggregate remuneration comprised:

	15 months ended 31 March 2001 £	Year ended 31 December 1999 £
Wages and salaries	2,755,175	1,907,035
Social security costs	273,704	205,042
Other pension costs	16,549	8,587
	3,045,428	2,120,664

Remuneration:

The remuneration of the directors was as follows:

	15 months ended 31 March 2001 £	Year ended 31 December 1999 £
Emoluments	133,774	99,790

No director was a member of a pension scheme during the period (1999 – None).

7 Tax on loss on ordinary activities

The tax charge comprises:

	15 months ended 31 March 2001 £	Year ended 31 December 1999 £
Irrecoverable advance corporation tax in respect of earlier years	23,142	-

8 Tangible fixed assets

Group and company

	Leasehold improvements £	Computer equipment £	Office fixtures, and fittings £	Motor vehicles £	Total £
Cost					
Beginning of period	62,727	737,099	232,931	3,000	1,035,757
Additions	-	275,005	61,841	-	336,846
Disposals	-	-	-	(3,000)	(3,000)
End of period	62,727	1,012,104	294,772	-	1,369,603
Depreciation					
Beginning of period	28,378	320,579	58,927	3,000	410,884
Charge for the period net of amendments to brought forward balances	(8,546)	347,261	45,871	-	384,586
Disposals	-	-	-	(3,000)	(3,000)
End of period	19,832	667,840	104,798	-	792,470
Net book value					
Beginning of period	34,349	416,520	174,004	-	624,873
End of period	42,895	344,264	189,974	-	577,133

9 Fixed asset investments

Company	31 March 2001 £	31 December 1999 £
Subsidiary undertakings - cost		
Beginning and end of period	97,947	97,947

9 Fixed asset investments (continued)

During 1999 the company received 80% of the issued share capital of Harbinger Italia S.R.L for a nil consideration as part of a group reconstruction.

The company's subsidiary undertakings are as follows:

	Country of incorporation	Principal activity	Shares held Class	%
Harbinger Italia S.R.L	Italy	Provision of information technology	Ordinary	80
Atlas Products International Limited	Great Britain	Dormant	Ordinary	100
Harbinger Oxon Limited	Great Britain	Dormant	Ordinary	100
Premenos (UK) Limited	Great Britain	Dormant	Ordinary	100
EDI Integrated Services Limited	Great Britain	Dormant	Ordinary	100

As explained in Note 1(b), group financial statements, including Harbinger Italia S.R.L. have not been prepared. Harbinger Italia S.R.L made a profit after tax of 272.9m lira for the year ended 31 December 2000 and its aggregate capital and reserves at 31 December 2000 amounted to 457.6m lira based on unaudited financial information.

10 Intangible fixed assets

Company	Goodwill £
Cost	
Beginning and end of period	391,318
Amortisation	
Beginning of period	195,659
Charge in period	195,659
End of period	391,318
Net book value	
Beginning of period	195,659
End of period	-

In the year ended 31 December 1998 the company acquired several subsidiary undertakings. The trade and net assets of these subsidiary undertakings were substantially transferred to the company at their book value which was equal to the fair value of the net assets. Also transferred to the company were the trade and net assets of an existing subsidiary, Atlas Products International Limited. Part of the company's cost of investment in the existing subsidiary undertaking represented goodwill which was also transferred and described as an intangible fixed asset which is being amortised over a two year period.

11 Debtors

Amounts falling due within one year:

	Group		Company	
	31 March 2001	31 December 1999	31 March 2001	31 December 1999
	£	£	£	£
Trade debtors	629,637	1,156,037	629,637	1,156,037
Amounts owed by group undertakings	91,173	-	91,173	-
Other debtors	120,255	19,968	120,255	19,968
Prepayments and accrued income	138,173	113,684	138,173	113,684
	979,238	1,289,689	979,238	1,289,689

Other debtors includes an amount of £114,000 (1999 – Nil) falling due after more than one year.

12 Creditors: Amounts falling due within one year

	Group		Company	
	31 March 2001	31 December 1999	31 March 2001	31 December 1999
	£	£	£	£
Bank loans and overdrafts (unsecured)	101,072	78,502	101,072	78,502
Trade creditors	234,118	580,657	234,118	580,657
Amounts owed to group undertakings	2,892,879	1,141,028	2,990,826	1,238,975
Other taxes and social security costs	275,229	108,244	275,229	108,244
Other creditors	-	3,123	-	3,123
Accruals and deferred income	701,025	605,078	701,025	605,078
	4,204,323	2,516,632	4,302,270	2,614,579

13 Called-up share capital

	31 March 2001 £	31 December 1999 £
Authorised		
1,100,000 ordinary shares of £1 each	1,100,000	1,100,000
170,000 redeemable ordinary shares of £1 each	170,000	170,000
	1,270,000	1,270,000
Allotted, called-up and fully-paid		
102,661 ordinary shares of £1 each	102,661	102,661
85,000 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.

14 Reserves

Group	Share premium account £	Capital redemption reserve £	Profit and loss account £
Beginning of period	374,353	85,000	(1,052,643)
Loss for the financial period	-	-	(2,081,403)
End of period	374,353	85,000	(3,134,046)
Company			
Beginning of period	374,353	85,000	(856,984)
Loss for the financial period	-	-	(2,277,062)
End of period	374,353	85,000	(3,134,046)

The cumulative amount of goodwill written off against the company's reserves is £391,318 (1999 - £195,659).

15 Reconciliation of movements in equity shareholders' deficit

Group	31 March 2001 £	31 December 1999 £
Loss for the financial period	(2,081,403)	(661,800)
Opening equity shareholders' (deficit) funds	(405,629)	256,171
Closing equity shareholders' deficit	(2,487,032)	(405,629)

Company	31 March 2001 £	31 December 1999 £
Loss for the financial period	(2,277,062)	(857,459)
Opening equity shareholders' (deficit) funds	(209,970)	647,489
Closing equity shareholders' deficit	(2,487,032)	(209,970)

16 Deferred taxation

The company had no liability to deferred taxation as it had accumulated an excess of depreciation over capital allowances at both the beginning and end of the period.

17 Guarantees and other financial commitments

Lease commitments

At 31 March 2001 the company had annual commitments under non-cancellable operating leases as follows:

	31 March 2001 Land and buildings £	31 March 2001 Plant and machinery £	31 December 1999 Land and buildings £	31 December 1999 Plant and machinery £
Expiry date:				
Within one year	22,909	5,097	41,744	28,021
Between two and five years	-	70,182	-	49,572
Over five years	114,000	-	114,000	-
	136,909	75,279	155,744	77,593

18 Ultimate parent undertaking

The largest and smallest group in which the results of the company are consolidated is that headed by its ultimate parent undertaking, Peregrine Systems Inc. incorporated in the State of California U.S.A. The consolidated financial statements of the group are available to the public and may be obtained from 3579, Valley Centre Drive, San Diego, CA 92130.

Advantage has been taken of the exemptions available under Financial Reporting Standard No. 8 for the non-disclosure of transactions between a subsidiary undertaking and its parent undertaking if the shareholding exceeds 90% of the issued share capital and the consolidated accounts for the parent undertaking are available to the public.

19 Prior period comparative amounts

The prior period comparative amounts were audited by a firm of Registered Auditors other than Arthur Andersen.