

2-12



CYBERGUARD EUROPE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2002

Company No 3198119

CYBERGUARD EUROPE LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2002

Company registration number: 3198119

Registered office: Eagle House
The Ring
Bracknell
Berkshire
RG12 1HB

Directors Mr A Clarke
Mr M Matte
Mr P J Clawson
Mr S J Hammack

Secretary: Mr A Clarke

Bankers: HSBC Bank plc
128 High Street
Slough
Berkshire
SL1 1JF

Solicitors: Salans Hertzfeld & Heilbronn HRK
Clements House
14-18 Gresham Street
London
EC2V 7NN

Auditors: Grant Thornton
Registered auditors
Chartered accountants
The Explorer Building
Fleming Way
Manor Royal
Crawley
RH10 9GT

CYBERGUARD EUROPE LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2002

INDEX	PAGE
Report of the directors	1 – 2
Report of the independent auditors	3
Principal accounting policies	4 - 5
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8 - 12

CYBERGUARD EUROPE LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 30 June 2002.

Principal activities

The company continues to be principally engaged in the sale of computer software.

Business review

There was a loss for the year after taxation amounting to £888,245 (2001: profit £889,089). The directors do not recommend payment of a dividend.

Directors

The present membership of the Board is set out below.

The interests of the directors and their families in the shares of the company at 1 July 2001 and 30 June 2002, were as follows:

	Ordinary shares of £1 each	
	30 June 2002	1 July 2001
H J Davies (resigned 8 August 2002)	-	-
Mr A Clarke (appointed 8 August 2002)	-	-
Mr M Matte	-	-
Mr P J Clawson	-	-
Mr S J Hammack	-	-

The interests of the directors in the shares of the parent company are shown in the financial statements of that company.

Directors' responsibilities for the financial statements

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
- 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.


CYBERGUARD EUROPE LIMITED

REPORT OF THE DIRECTORS

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



Secretary

11 November 2002

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CYBERGUARD EUROPE LIMITED

We have audited the financial statements of Cyberguard Europe Limited for the year ended 30 June 2002, which comprise the principal accounting policies, the profit and loss account, the balance sheet, and notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 company is not disclosed.

We read other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
GATWICK**

11 November 2002

CYBERGUARD EUROPE LIMITED

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis despite there being net liabilities at the end of the financial year as the parent undertaking has expressed its willingness to support the UK company.

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

The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

TURNOVER

Turnover represents the amounts chargeable for work undertaken in respect of the supply, installation and customisation of internet security software. Licence fees are credited to turnover when they are due. Turnover in respect of maintenance contracts, which are invoiced in advance, is apportioned on a time basis over the period to which contracts relate. Turnover is stated exclusive of VAT and trade discounts.

Turnover represents sales made almost entirely within the European market.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The periods generally applicable are:

Leasehold improvements	3 - 5 years straight line
Plant and machinery	3 - 5 years straight line

LEASED ASSETS

All leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

STOCK

Stock is valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

CYBERGUARD EUROPE LIMITED

PRINCIPAL ACCOUNTING POLICIES

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets.

All other exchange differences are dealt with through the profit and loss account.

CONTRIBUTIONS TO PENSION FUNDS

Defined contribution scheme

The company makes defined contributions to certain employees' personal pension plans. The pension costs charged represent the amount of the contributions payable to the scheme in respect of the accounting period.

CYBERGUARD EUROPE LIMITED**PROFIT AND LOSS ACCOUNT**

For the year ended 30 June 2002

	Note	2002 £	2001 £
Turnover	1	4,834,795	5,919,175
Cost of sales		<u>(4,430,413)</u>	<u>(3,671,900)</u>
Gross profit		404,382	2,247,275
Administrative expenses		<u>(1,429,984)</u>	<u>(1,308,376)</u>
Operating (loss)/profit		(1,025,602)	938,899
Net interest	2	7,369	16,308
Profit/(loss) on foreign exchange transactions		<u>133,130</u>	<u>(66,118)</u>
(Loss)/profit on ordinary activities before taxation		(885,103)	889,089
Taxation	4	<u>(3,142)</u>	<u>-</u>
(Loss)/profit for the financial year		<u>(888,245)</u>	<u>889,089</u>

There were no recognised gains or losses other than the (loss)/profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

CYBERGUARD EUROPE LIMITED

BALANCE SHEET

At 30 June 2002

	Note	2002 £	2002 £	2001 £	2001 £
Fixed assets					
Tangible assets	5		13,384		14,877
Current assets					
Stocks	6	508,382		23,468	
Debtors	7	1,411,321		1,483,678	
Cash at bank and in hand		665,064		880,134	
		<u>2,584,767</u>		<u>2,387,280</u>	
Creditors: amounts falling due within one year	8	<u>(3,127,950)</u>		<u>(2,043,711)</u>	
Net current (liabilities)/assets			<u>(543,183)</u>		<u>343,569</u>
Total assets less current liabilities			<u>(529,799)</u>		<u>358,446</u>
Creditors: amounts falling due after more than one year	9		<u>(775,174)</u>		<u>(775,174)</u>
			<u>(1,304,973)</u>		<u>(416,728)</u>
Capital and reserves					
Called up share capital	10		2		2
Profit and loss account	11		<u>(1,304,975)</u>		<u>(416,730)</u>
Equity shareholders' deficit	12		<u>(1,304,973)</u>		<u>(416,728)</u>

The financial statements were approved by the Board of Directors on 11 November 2002

Director




The accompanying accounting policies and notes form an integral part of these financial statements.

CYBERGUARD EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

1 TURNOVER AND (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover represents sales made almost entirely within the European market.

The (loss)/profit on ordinary activities before taxation is stated after:	2002	2001
	£	£
Auditors' remuneration		
- audit services	14,500	14,500
- non audit services	15,000	11,100
Depreciation		
- tangible fixed assets, owned	11,181	15,272
Operating lease rentals in respect of		
- office space	90,624	45,312
- motor vehicles	22,998	22,998

2 NET INTEREST

	2002	2001
	£	£
Bank interest payable	(938)	(433)
Interest receivable and similar charges	8,307	16,741
	<u>7,369</u>	<u>16,308</u>

3 DIRECTORS AND EMPLOYEES

Emoluments in respect of the sole remunerated director was as follows:	2002	2001
	£	£
Emoluments (including benefits in kind)	<u>170,722</u>	<u>201,731</u>

During the year the company made £4,858 of contributions (2001: £4,644) to the director's personal pension plan.

CYBERGUARD EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

DIRECTORS AND EMPLOYEES (CONTINUED)

Staff costs during the year were as follows:

	2002 £	2001 £
Wages and salaries	529,884	551,466
Social security costs	79,333	72,029
Pension costs	8,158	7,675
	<u>617,375</u>	<u>631,170</u>

The average number of employees of the company (excluding directors) during the year was 8 (2001: 5), all of whom were engaged in sales and administration.

4 TAX ON LOSS ON ORDINARY ACTIVITIES

	2002 £	2001 £
Corporation tax - prior year adjustment	<u>3,142</u>	<u>-</u>

There is no charge for corporation tax in view of the losses made in the year.

5 TANGIBLE FIXED ASSETS

	Leasehold improve- ments £	Plant and machinery £	Motor vehicles £	Total £
Cost				
At 1 July 2001	7,856	49,005	16,500	73,361
Additions	-	9,688	-	9,688
At 30 June 2002	<u>7,856</u>	<u>58,693</u>	<u>16,500</u>	<u>83,049</u>
Depreciation				
At 1 July 2001	7,856	34,128	16,500	58,484
Provided in the year	-	11,181	-	11,181
At 30 June 2002	<u>7,856</u>	<u>45,309</u>	<u>16,500</u>	<u>69,665</u>
Net book amount at 30 June 2002	<u>-</u>	<u>13,384</u>	<u>-</u>	<u>13,384</u>
Net book amount at 30 June 2001	<u>-</u>	<u>14,877</u>	<u>-</u>	<u>14,877</u>

CYBERGUARD EUROPE LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2002

6 STOCKS

	2002 £	2001 £
Finished goods	<u>508,382</u>	<u>23,468</u>

7 DEBTORS

	2002 £	2001 £
Trade debtors	1,249,275	1,322,454
Prepayments and accrued income	<u>162,046</u>	<u>161,224</u>
	<u>1,411,321</u>	<u>1,483,678</u>

8 CREDITORS: AMOUNT FALLING DUE WITHIN ONE YEAR

	2002 £	2001 £
Bank overdraft	-	58,003
Trade creditors	82,025	99,266
Amounts owed to parent undertakings	2,096,453	1,072,318
Social security and other taxes	76,281	106,079
Other creditors	87,617	94,727
Accruals and deferred income	<u>785,574</u>	<u>613,318</u>
	<u>3,127,950</u>	<u>2,043,711</u>

9 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002 £	2001 £
Loan from parent undertaking	<u>775,174</u>	<u>775,174</u>

The loan from the parent undertaking has no fixed repayment term and is interest free.

CYBERGUARD EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

10 SHARE CAPITAL

	2002 £	2001 £
Authorised 1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

11 RESERVES

	Profit and loss account £
At 1 July 2001	(416,730)
Loss for the year	(888,245)
At 30 June 2002	<u>(1,304,975)</u>

12 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' DEFICIT

	2002 £	2001 £
At 1 July 2001	(416,728)	(1,305,817)
(Loss)/profit for the year	(888,245)	889,089
At 30 June 2002	<u>(1,304,973)</u>	<u>(416,728)</u>

13 CONTINGENT LIABILITIES

The company has provided a guarantee amounting to £100,000 (2001: £100,000) to HM Customs & Excise in respect of deferred VAT.

CYBERGUARD EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

14 LEASING COMMITMENTS

Operating lease payments amounting to £45,312 (2001: £68,310) are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings 2002 £	Other 2002 £	Land and buildings 2001 £	Other 2001 £
In one year or less	45,312	2,717	45,312	1,060
Between one and five years	-	8,155	-	21,938
	<u>45,312</u>	<u>10,872</u>	<u>45,312</u>	<u>22,998</u>

15 TRANSACTIONS WITH RELATED PARTIES

As a wholly owned subsidiary of CyberGuard Corporation, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by CyberGuard Corporation.

16 CONTROLLING RELATED PARTIES

The directors consider that the ultimate parent undertaking of this company is CyberGuard Corporation, incorporated in the United States of America.

The consolidated financial statements of CyberGuard Corporation are available to the public and may be obtained from 2000 West Commercial Boulevard, Ft Lauderdale, FL33309.