

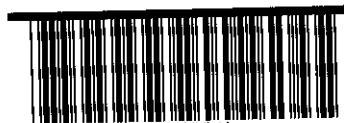
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CYBERGUARD EUROPE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2000



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Company No. 3198119

CYBERGUARD EUROPE LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2000

Company registration number: 3198119

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

Directors Mr H J Davies
Mr D R Proctor
Mr T A Zielinski

Secretary: Mr H J Davies

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

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

Auditors: Grant Thornton
Registered auditors
Chartered accountants
Crawley

CYBERGUARD EUROPE LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2000

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CYBERGUARD EUROPE LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 30 June 2000.

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 £174,062 (1999: £742,029). The directors do not recommend payment of a dividend. The directors consider the result for the year to be satisfactory, and will continue to look for opportunities for growth.

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 1999 and 30 June 2000, were as follows:

	30.6.2000	1.7.1999
H J Davies	-	-
Mr D R Proctor (appointed 22 August 2000)	-	-
Mr T A Zielinski (appointed 22 August 2000)	-	-

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 the group and of the profit or loss of the group 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 maintaining proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CYBERGUARD EUROPE LIMITED

REPORT OF THE DIRECTORS

Year 2000 compliance

The company suffered no impact from the year 2000 date change nor did any of its major customers, suppliers or trading partners.

Auditors

Grant Thornton were appointed auditors on 21 June 2000 to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985. Special notice pursuant to section 388(3) having been given, a resolution to reappoint Grant Thornton as auditors will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD



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

We have audited the financial statements on pages 4 to 12 which have been prepared under the accounting policies set out on pages 4 and 5.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

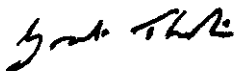
Basis of opinion

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 at 30 June 2000 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
CRAWLEY**

6 November 2000

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
Motor vehicles	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 provided for using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

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 2000

	Note	2000 £	1999 £
Turnover	1	3,342,720	1,739,475
Cost of sales		<u>(1,964,025)</u>	<u>(1,332,592)</u>
Gross profit		1,378,695	406,883
Administrative expenses		<u>(1,452,748)</u>	<u>(1,153,398)</u>
Operating loss		(74,053)	(746,515)
Net interest	2	(659)	10,327
Loss on foreign exchange transactions		<u>(99,350)</u>	<u>(5,841)</u>
Loss on ordinary activities before taxation		(174,062)	(742,029)
Taxation	4	<u>0</u>	<u>0</u>
Loss for the year		<u><u>(174,062)</u></u>	<u><u>(742,029)</u></u>

There were no recognised gains or losses other than the losses for the year.

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

CYBERGUARD EUROPE LIMITED

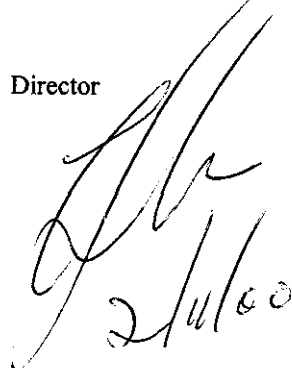
BALANCE SHEET

At 30 June 2000

	Note	£	2000 £	£	1999 £
Fixed assets					
Tangible assets	5		24,670		36,893
Current assets					
Stocks	6	60,513		93,467	
Debtors	7	746,508		654,908	
Cash at bank and in hand		<u>777,729</u>		<u>411,155</u>	
		1,584,750		1,159,530	
Creditors: amounts falling due within one year	8	<u>(2,140,063)</u>		<u>(2,328,178)</u>	
Net current liabilities			<u>(555,313)</u>		<u>(1,168,648)</u>
Total assets less current liabilities			(530,643)		(1,131,755)
Creditors: amounts falling due after more than one year	9		<u>(775,174)</u>		<u>0</u>
			<u>(1,305,817)</u>		<u>(1,131,755)</u>
Capital and reserves					
Called up share capital	10		2		2
Profit and loss account	11		<u>(1,305,819)</u>		<u>(1,131,757)</u>
Equity shareholders' deficit	12		<u>(1,305,817)</u>		<u>(1,135,755)</u>

The financial statements were approved by the board of directors on

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 2000

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover represents sales made almost entirely within the European market.

The loss on ordinary activities before taxation is stated after:

	2000 £	1999 £
Auditors' remuneration		
- audit services	14,500	9,000
- in respect of prior years	80,911	0
Depreciation		
- tangible fixed assets, owned	17,736	45,214
Operating lease rentals in respect of		
- office space	61,185	57,746
- motor vehicles	37,319	42,206

2 NET INTEREST

	2000 £	1999 £
Interest payable to group undertakings	(20,221)	0
Interest receivable and similar charges	19,562	10,327
	(659)	10,327

3 DIRECTORS AND EMPLOYEES

Remuneration in respect of directors was as follows:

	2000 £	1999 £
Emoluments (including benefits in kind)	161,981	134,831

Retirement benefits are accruing to no directors under money purchase pension schemes.

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

For the year ended 30 June 2000

DIRECTORS AND EMPLOYEES (CONTINUED)

Staff costs during the year were as follows:

	2000 £	1999 £
Wages and salaries	556,272	359,520
Social security costs	64,325	35,217
Pension costs	7,200	7,200
	<u>627,797</u>	<u>401,937</u>

The average number of employees of the company (excluding directors) during the year was 6 (1999: 5), all of whom were engaged in sales and administration.

4 TAX ON LOSS ON ORDINARY ACTIVITIES

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

5 TANGIBLE FIXED ASSETS

	Leasehold improvements £	Plant and machinery £	Motor vehicles £	Total £
Cost				
At 1 July 1999	7,856	187,415	16,500	211,771
Additions	0	7,720	0	7,720
Disposals	0	(151,609)	0	(151,609)
At 30 June 2000	<u>7,856</u>	<u>43,526</u>	<u>16,500</u>	<u>67,882</u>
Depreciation				
At 1 July 1999	7,856	150,522	16,500	174,878
Provided in the year	0	17,736	0	17,736
Eliminated on disposal	0	(149,402)	0	(149,402)
At 30 June 2000	<u>7,856</u>	<u>18,856</u>	<u>16,500</u>	<u>43,212</u>
Net book amount at 30 June 2000	<u>0</u>	<u>24,670</u>	<u>0</u>	<u>24,670</u>
Net book amount at 30 June 1999	<u>0</u>	<u>36,893</u>	<u>0</u>	<u>36,893</u>

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

For the year ended 30 June 2000

6 STOCKS

	2000 £	1999 £
Finished goods	<u>60,513</u>	<u>93,467</u>

7 DEBTORS

	2000 £	1999 £
Trade debtors	599,966	412,001
Amounts owed by parent undertaking	0	239,140
Prepayments and accrued income	<u>146,542</u>	<u>3,767</u>
	<u>746,508</u>	<u>654,908</u>

8 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2000 £	1999 £
Trade creditors	168,466	172,262
Amounts owed to parent undertaking	1,343,191	1,740,997
Social security and other taxes	38,333	34,506
Other creditors	124,704	176,314
Accruals and deferred income	<u>465,369</u>	<u>204,099</u>
	<u>2,140,063</u>	<u>2,328,178</u>

9 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2000 £	1999 £
Loan from parent undertaking	<u>775,174</u>	<u>0</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 2000

10 SHARE CAPITAL

	2000 £	1999 £
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 1999	(1,131,757)
Loss for the year	(174,062)
At 30 June 2000	<u>(1,305,819)</u>

12 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' DEFICIT

	2000 £	1999 £
At 1 July 1999	(1,131,755)	(389,726)
Loss for the year	(174,062)	(742,029)
At 30 June 2000	<u>(1,305,817)</u>	<u>(1,131,755)</u>

13 CONTINGENT LIABILITIES

The company has provided a guarantee amounting to £100,000 (1999: £50,000) to HM Customs & Excise in respect of deferred VAT.

CYBERGUARD EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

14 LEASING COMMITMENTS

Operating lease payments amounting to £31,499 (1999: £38,488) are due within one year. the leases to which these amounts relate expire as follows:

	2000	Motor vehicles 1999
	£	£
In one year or less	24,062	3,857
Between one and five years	10,437	34,631
	<u>31,499</u>	<u>38,488</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.