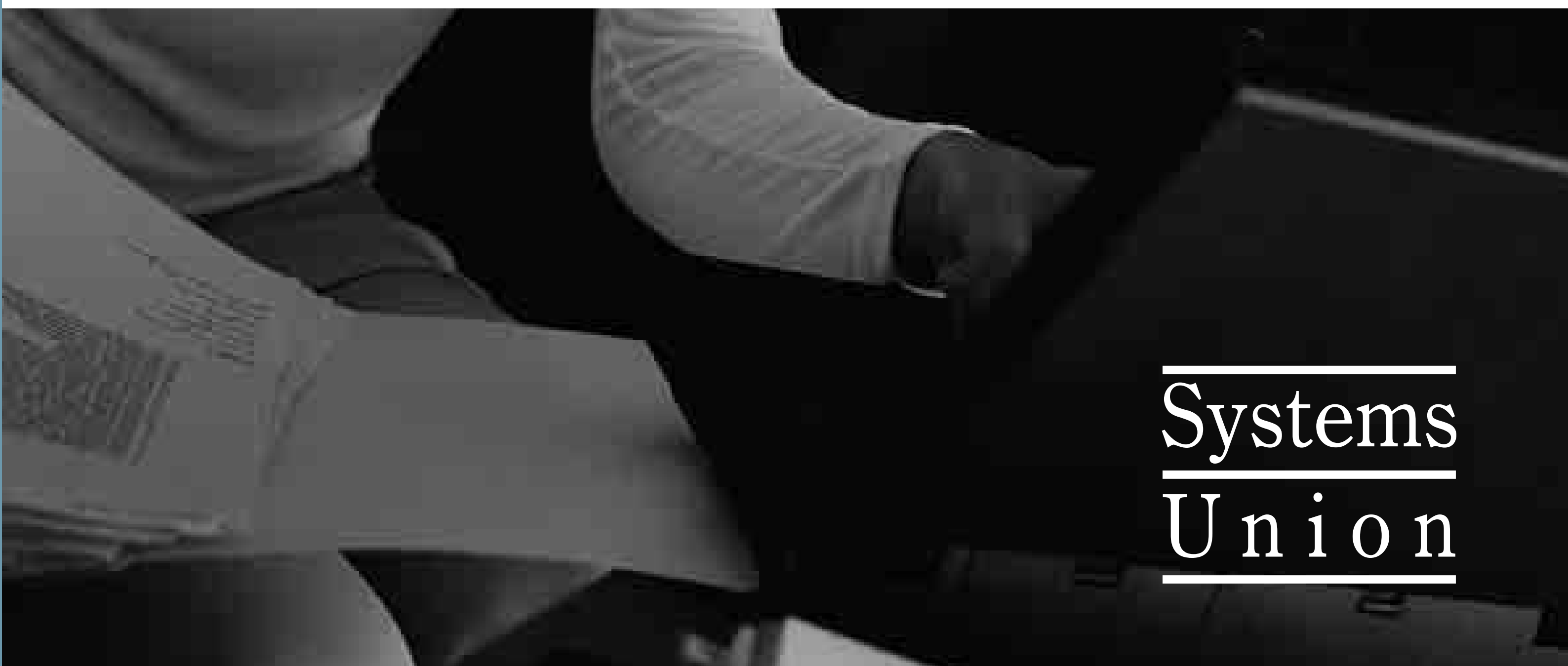
Systems Union Group plc Annual Report and Accounts 2002



Systems Union

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Financial Highlights

- *Earnings per share[1] up 87 per cent*
- *EBITDA up 68 per cent*
- *Profit before tax up 97 per cent*
- *EBITDA margin up 77 per cent*
- *Cash and investments of £25m*

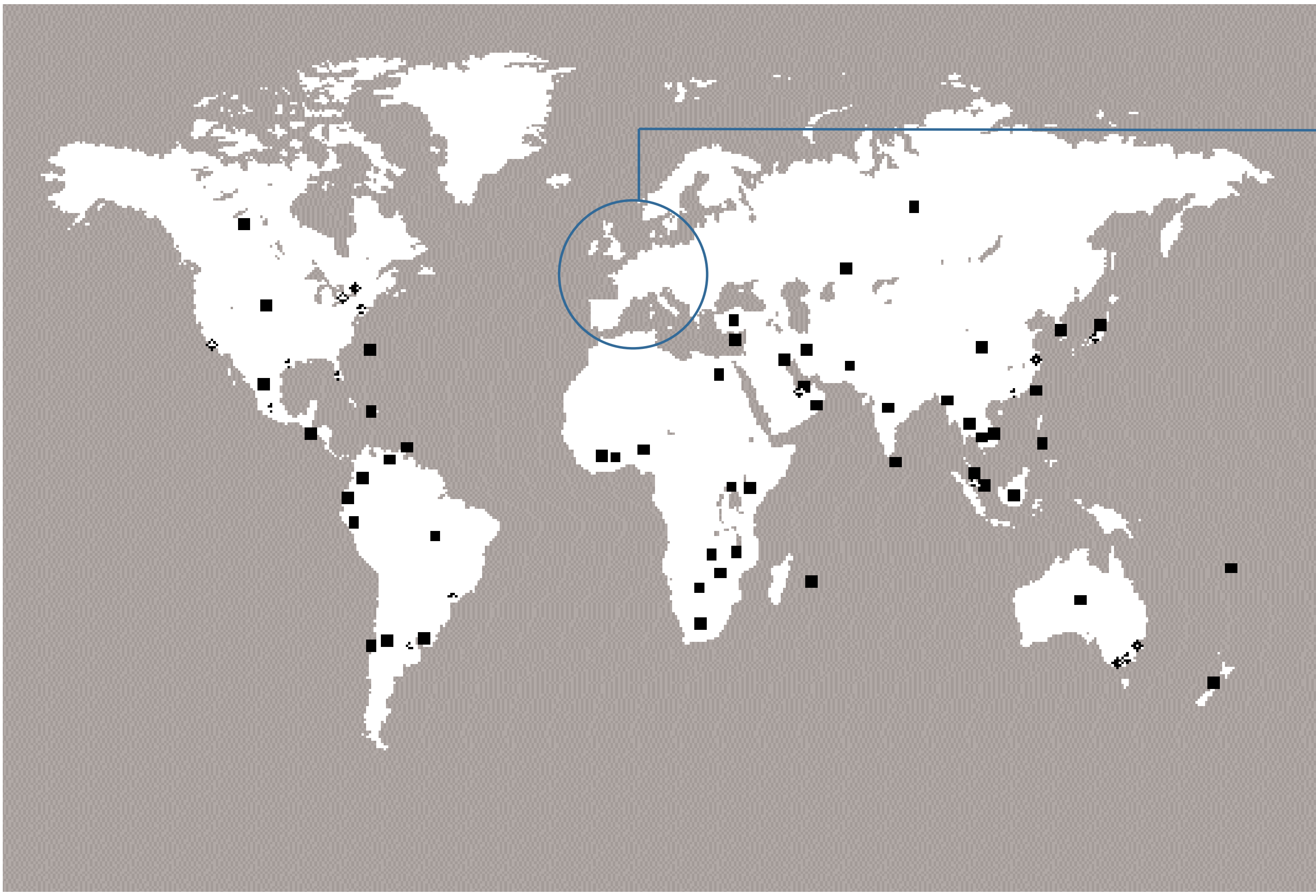
Corporate Statement

Systems Union Group plc is a leading global IT company, quoted on the Alternative Investment Market (AIM) of the London Stock Exchange. In December 2002, the Company was the 18th largest on AIM, ranked by market capitalisation.[2]

By revenue, we are one of the top 25 software houses in Europe and the 8th largest in the UK.[3] Operating globally, we work with numerous well-known organisations ensuring they achieve their business objectives. We provide a range of services from real-time financial management software for companies, large and small, to web-systems to improve internal efficiency.

The Company has a very clear, realistic and achievable agenda and is committed to strategic growth. We have the financial resources, global infrastructure and management team to meet these objectives.

① on a fully diluted basis – adjusted to exclude amortisation of goodwill and profit on disposal of properties in 2001
② Source: Shares magazine, 12 December 2002
③ Source: The European Software Top 50, Infoconomist September 2002 which lists organisations that generate "more than 50 per cent of [their] revenue from licence sales and directly-related services".



Systems Union Group at a glance

Systems Union Group plc

The Group is a global union of systems companies that are focused on providing solutions to meet the business needs of their customers. As a result of significant investment in research & development, the Group has a comprehensive range of leading products and services.

SunSystems

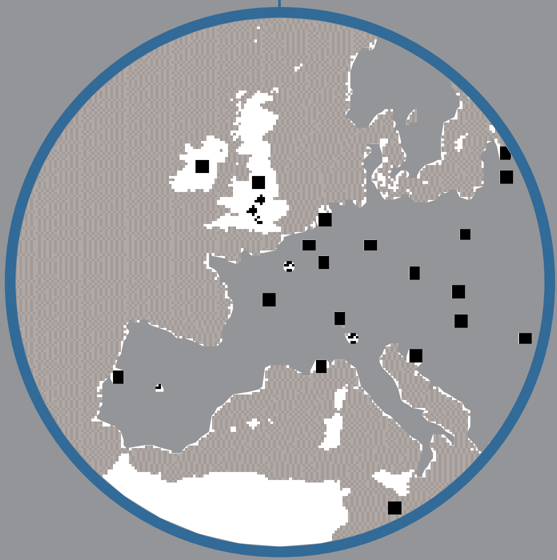
Accounts for 89 per cent of Group revenues. Leading real-time, multi-GAAP, multi-currency, multi-lingual financial & business management software solutions based on a dynamic single ledger structure for international and domestic organisations. Distributed through 22 offices and 200 channel partners giving a presence in 76 countries, and used at 18,000 customer sites and by 186,000 users in 194 countries. SunSystems uniquely combines the 3 advantages of low total-cost-of-ownership, low risk solution for customers and global reach of its support infrastructure.

Pegasus Software

Accounts for 10 per cent of Group revenues. Provides financial & accountancy software for small and medium-sized enterprises (SMEs). A leader in payroll and modular accounting systems with 90,000 licensed users.

REDtechnology.com

Accounts for 1 per cent of Group revenues. Web development and hosting company, operating in the United Kingdom.



Key

Location of SunSystems offices

Country in which one (or more) SunSystems channel partner(s) operates

Other Systems Union Group offices

Global Reach

	Office locations	Channel partners
SunSystems in EMEA (Europe, Middle East and Africa)	Farnborough, Paris, Frankfurt, Madrid, Milan and Dubai	Belgium, Botswana, Bulgaria, Croatia, Cyprus, Czech Republic, Egypt, France, Germany, Ghana, Greece, Hungary, Iran, Ireland, Ivory Coast, Kazakhstan, Kenya, Kuwait, Latvia, Lithuania, Luxembourg, Malawi, Malta, Mauritius, Monaco, Netherlands, Nigeria, Oman, Poland, Portugal, Romania, Russia, Slovak Republic, South Africa, Switzerland, Turkey, UAE, Uganda, Ukraine, United Kingdom, Zambia and Zimbabwe
SunSystems in The Americas	Miami, Los Angeles, Houston, New York, Ottawa, Toronto, Buenos Aires, Mexico City and Sao Paulo	Argentina, Bermuda, Brazil, Canada, Chile, Columbia, Dominican Republic, Ecuador, El Salvador, Mexico, Peru, Trinidad & Tobago, Uruguay, USA and Venezuela
SunSystems in Asia-Pacific	Hong Kong, Sydney, Canberra, Melbourne, Singapore, Tokyo and Shanghai	Australia, Cambodia, China, Fiji, India, Indonesia, Japan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, South Korea, Taiwan, Thailand and Vietnam
	Other offices	
Pegasus Software	Kettering	Primarily United Kingdom and Ireland
REDtechnology.com	Oxford	United Kingdom

Chairman's Statement

Bob Morton
Chairman

I am very pleased to report continued progress in the performance of the Group, despite difficult global trading conditions. We significantly increased our profits during 2002, and ended the year with cash balances of £18.9 million. All areas of the business showed an improved profit, despite slightly lower revenues, through greater efficiency and a continued focus on new technology.

SunSystems 5 and Pegasus Opera II have been extremely well received since they were launched in 2001 and continued progress is anticipated for these products during 2003. This success reflects our on-going investment in research & development.

Results

Earnings before interest, tax, depreciation and amortisation of intangibles (EBITDA) grew by 68 per cent to £8.7 million (2001: £5.1 million) representing strong profits growth from the Group's two primary businesses of SunSystems and Pegasus. This result was particularly pleasing in view of the small decline in turnover because of the demanding market conditions to £74.6 million (2001: £78.4 million) and is evidence of further improved productivity.

Net profit after tax was £3.9 million compared to £2.0 million in the previous year, an increase of 95 per cent. Adjusted earnings per share increased by 87 per cent to 7.1 pence.

The balance sheet is strong and debt free. The cash position improved by £3.6 million and net current assets rose by £7.9 million.

Whilst the Board is unable to recommend a dividend for 2002, due to the lack of distributable reserves in the Company, I am pleased to report that following High Court approval of our capital reduction proposals, the deficit on the Company's distributable reserves has been eliminated, allowing the Company to pay dividends from future profits.

The Board

I am delighted to welcome Tony Sweet to the Board. He was appointed chief financial officer upon joining the Company on 1 December 2002. Tony has extensive experience in private practice including work on mergers & acquisitions and is a valuable addition to our executive management team.

Outlook

We are focused on growing the Group and to further improve profitability. We remain positive in our expectations for the outcome of 2003.

Bob Morton
Chairman

Case Study
Aid agencies – Save the Children (UK)

The UK-based Save the Children charity is part of the International Save the Children Alliance, a group of 30 like-minded but separately managed organisations working in over 120 countries. They champion the right of every child to have a secure and happy childhood and the right to be protected from violence, abuse and exploitation.

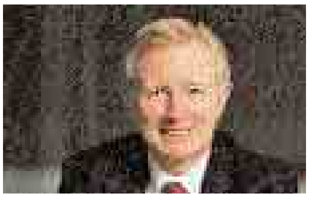
Save the Children (UK) operates through 7 regional offices around the world. Outside the United Kingdom, all financial management is handled on SunSystems.

The level of detail and traceability is vital. Save the Children (UK) has an annual income in excess of £110 million, of which roughly half is restricted funds. These are donated either with a specific usage in mind or as grants for defined purposes. The ability to account for every penny of restricted funds is essential since full reporting back to donors is required. Future funds are more likely to be secured if previous donations are shown to have been wisely spent.

“The time and money we have saved through improved administration processes by using SunSystems is considerable,” said Angela Connolly, head of the finance systems development unit. “For donations with particular uses in mind, our reports must be very detailed to demonstrate value. Providing this information, cost effectively, is vital. And that means more of our funds can be spent on saving children.”

SunSystems is used by aid agencies in 141 countries

Chief Executive Officer's Review



Paul Coleman
Chief Executive Officer

2002 was undoubtedly a difficult year for the IT industry and the global economy in general. For Systems Union, this was reflected in overall revenue being 5 per cent less than the previous year. Nevertheless, we believe that our revenue performance is better than much of the global IT sector.

With this backdrop, I am delighted to be able to announce significantly improved results for the Group. Highlights for the year included:

- *Adjusted earnings per share grew by 87 per cent to 7.1p (2001: 3.8p)*
- *Basic earnings per share rose by 90 per cent to 3.8p (2001: 2.0p)*
- *EBITDA grew by 68 per cent to £8.7 million (2001: £5.1 million)*
- *Profit before tax increased by 97 per cent to £4.3 million (2001: £2.2 million)*
- *Fifth consecutive half-yearly increase in profitability*
- *EBITDA per employee increased by 71 per cent to £11,300 (2001: £6,600)*
- *Cash and investments of £25 million and no debt*
- *The Company will pay dividends from future profits*

These achievements reflect the considerable efforts and resolve of the management team and staff members. This has ensured that the Group's financial well-being has been strengthened. At the same time as maintaining our significant investment in research & development (R&D), we have continued to improve profitability in an environment where many companies have reported steep falls in earnings.

Growth strategy

Far more important than the past is what are we going to do for the future. Systems Union Group plc now has a proven track record of improving financial performance; it is apparent, however, that 2003 will undoubtedly present fresh challenges. Despite this, we are encouraged by the start to the current year.

The Group is now financially strong, the cost base is lower and the business opportunity has improved. We believe that we are now in a position to capitalise on this financial strength to derive significant synergistic benefits from acquisitions and to achieve further growth. Accordingly, we are more optimistic than we were this time last year.

Even though we have reported improved profitability for 2002, our revenues declined slightly. It is therefore a key essential that the Group focuses on growth in 2003 and our plans are to return to and improve on income levels of 2001.

We will continue to focus on improving margin on sales above the 12 per cent achieved in 2002. Prudent cost management remains a priority. We shall, however, continue our investment in marketing to drive top-line growth, and in R&D to develop our new generation of products. This includes SunSystems and Pegasus R&D facilities working on shared core architecture.

Systems Union and its operating businesses, SunSystems, Pegasus and REDtechnology, are very much in proactive mode and we believe that the overall strategy will bring considerable shareholder value for the future.

The single-ledger, real-time, multi-currency, multi-lingual, multi-GAAP, open platform architecture, low risk and low total-cost-of-ownership approach will continue to give enormous strength for SunSystems and its extensive worldwide customer base.

In the medium-term it is our intention to increase our volume of business considerably on a profitable basis as we pursue our goal to become the leading mid-tier global financial and business management solutions provider. To achieve this strategy we will pursue the following actions:

- *Increase our global footprint.* The existing network is considerable with directly owned offices and channel partners across 76 countries, including new offices in Shanghai and Dubai. We will consider opening additional offices and recruit new channel partners.
- *Extend our worldwide vertical markets,* initially focusing on hotels, insurance, aid agencies and oil & gas.
- *Expand our global network of vertical software partners* (VSPs) with SunSystems embedded as the financial engine in third party applications.
- *Maintain the pre-eminence of our core financial products* as the key ingredients of our global solutions offerings.

Case Study Hotels – Broadwater

Broadwater is a respected brand name within the hospitality industry and is well known for its prime locations, unique architectural styles and luxury furniture and fittings. Its hotels, resorts and apartments are located in Perth and elsewhere in Western Australia and, by the end of 2004, it will have 8 high-quality properties in its portfolio.

Since the company has significant growth plans, its financial & business management system had to be flexible and scalable to meet future needs. The implementation of a centralised system was specified to handle each site uniquely but still provide standardised reporting. The company previously used a number of different front-of-house systems – which would be retained – and various back-of-house modules, none of which provided the reporting and analysis needed.

Prior to the installation of SunSystems by Eclipse Computing Australia, the production of monthly owners' statements was a whole day affair, involving re-keying large quantities of data with the very real possibility of errors.

Alex Farrell, Broadwater's Group financial controller, said: "With the power of SunSystems, this process now takes no time at all. It's a huge benefit and has really improved month-end morale. Instead of the business forcing the processing methodology, SunSystems handles the workings of the individual businesses on a day-to-day basis and gives the accounting team exposure to all parts of our businesses instead of just specialising in one."

1,000 hotels worldwide use SunSystems

Chief Executive Officer's Review

Growth strategy (continued)

- *Deliver additional complementary products* to satisfy the needs of our customers' directors around the boardroom table. In 2002, we delivered SunSystems Analytics (world-class reporting and information delivery solutions), SunSystems PSA (extended project accounting), SunSystems i2i Purchase Requisitioning (web-enabled), SunSystems Collect (cash management) and SunSystems Payroll.
- *Establish the office in Shanghai* with R&D and sales capabilities. R&D will be based on 2 pivots to cover our global requirements. This new office in China will enable the Group to defray and reduce some of its cost, whilst also providing improved localised products for the Asia-Pacific region. This is particularly exciting, not only in terms of R&D, but also with the market opportunities opening up through China's recent membership of the World Trade Organization (WTO), the Beijing Olympics 2008 and Expo 2010. Shanghai is the commercial capital of China and one of the largest cities in the world (with 17 million people). With over 2,000 SunSystems sites in China already, we are well placed to take advantage of this major market opportunity.
- *Roll out Pegasus software globally* under the SunSystems branding, including local language versions.
- *Retain platform independence in our R&D strategy.* We have already embarked upon a new technology framework based on Java II Enterprise Edition (J2EE).
- *Enhance our communication systems globally,* to allow our 2 SunSystems R&D centres, Farnborough and Shanghai, to provide support and services for the rest of the Group, our customers and the distribution network.
- *Pursue acquisition opportunities* for customer base, for product and services (bringing them into our R&D framework), and for advanced technology.
- *Support our channel partners* by providing enriched product offerings to enable greater growth.

Financial review

The £3.5 million (68 per cent) improvement in EBITDA reflects the success of management's focus on operational efficiency even though total revenues declined. In short, cost reductions significantly outweighed a decrease in income.

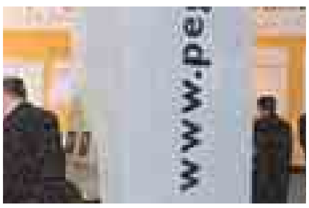
Group turnover of £74.6 million was 4.8 per cent lower than 2001. Licence revenues declined by £4.9 million and professional services by £3.1 million, reductions of 16 per cent. Recurring maintenance revenue, however, improved by £4.2 million, an increase of 15 per cent. This improvement reflects the increase to maintenance charges introduced in January 2002. As a result, recurring maintenance income represented 42.5 per cent of revenue, compared to 35.1 per cent previously. Whilst we were not immune from the downward pressures on global software licence and professional service income, we believe that we outperformed much of the IT sector.

Total costs reduced by 10 per cent to £66.0 million. These improvements in efficiency and a focus on cost control and profitability per head resulted in the EBITDA margin on sales increasing to 12 per cent for the year from 7 per cent in 2001. We expect this performance measure to show further improvement in 2003.

The Group's low tax rate reflects the benefit of corporate tax losses brought forward. We implemented FRS 19 with effect from the beginning of 2002 and the accounts include a prior year adjustment to restate the opening position on the new basis under that standard.

Cash balances at 31 December 2002 were £18.9 million. Cash flow from operating activities improved by 48 per cent to £5.1 million, which reflects our focus on cash collections. Days' sales outstanding (DSOs) for the Group are 57 days. Our strong cash position allowed us to renegotiate an outstanding commitment at a substantial early settlement discount. In addition, £1.3 million was paid in January 2002 to acquire the global exclusivity rights for SunSystems Vision, our analytics tool, together with existing maintenance contracts. The Group remains debt-free with net current assets of £24.9 million, an improvement of £7.9 million over last year. In addition, the Group continues to hold an investment in 9 million of its own shares, which are carried at £6.3 million.

In October 2002, the High Court approved the capital reduction proposals that had been passed by shareholders at the Extraordinary General Meeting on 23 September 2002. The deficit on the Company's profit & loss account has been eradicated thereby enabling the payment of dividends from future profits.



Case Study Insurance – CitiStreet

CitiStreet currently has over 3,500 employees and is one of the largest global benefits services firms in the world, providing an array of products and services for the retirement and employee benefit plans of corporate, government, healthcare and non-profit organisations. CitiStreet is owned and operated as a joint partnership between New York-based Citigroup and Boston-based State Street Corp.

CitiStreet has 3 geographically dispersed offices within the US, with each office providing a specific 'level of specialisation' in retirement products and services. As a result, the financial management challenges facing CitiStreet stemmed from its need to manage the business data from each office collectively, while still maintaining a certain degree of autonomy and flexibility for each division.

CitiStreet selected and deployed SunSystems to address this need for a number of reasons, including: SunSystems' ability to operate in a centralised environment, SunSystems' extensive reporting capabilities, consolidation capabilities and the low risk factor associated with the solution.

"All in all I think we came in on time and on budget … their people laid it out straight from the very beginning of the project. We knew exactly who needed to do what and when they needed to do it. SunSystems have been very responsible and very supportive as an organisation," said Bill Madden, assistant vice president of CitiStreet.

400 insurance company sites
in 62 countries use SunSystems

Chief Executive Officer's Review

Financial review (continued)

Summary of results

	2002 £000	2001 £000
Turnover by type		
Licence	**26,690**	31,581
Maintenance	**31,716**	27,487
Services	**16,225**	19,317
Total	**74,631**	78,385
Turnover by location		
– EMEA	**37,428**	37,417
– The Americas	**12,993**	16,173
– Asia-Pacific	**16,072**	16,482
SunSystems	**66,493**	70,072
Pegasus Software	**7,254**	7,481
REDtechnology	**884**	832
Total	**74,631**	78,385
EBITDA before R&D	**19,211**	17,201
R&D	**(10,544)**	(12,052)
EBITDA	**8,667**	5,149
Profit on disposal of properties	**—**	1,586
Depreciation	**(983)**	(1,385)
Amortisation	**(3,924)**	(3,590)
Operating profit	**3,760**	1,760
Net interest receivable	**556**	429
Profit on ordinary activities before tax	**4,316**	2,189
Taxation on ordinary activities	**(383)**	(146)
Profit for the financial year	**3,933**	2,043
Earnings per share (note 8)		
– basic	**3.8p**	2.0p
– diluted	**3.7p**	1.9p
Adjusted earnings per share (note 8)		
– basic	**7.2p**	3.9p
– diluted	**7.1p**	3.8p

Operational review

SunSystems

The company competes with, and regularly beats, large enterprise resource planning (ERP) vendors, a reflection that many customers prefer best-of-breed solutions to all-embracing systems. This preference for collaborative business, domain-focused expertise and web-enabled architecture matches SunSystems' product strategy and the ERPII model defined by leading industry analyst, Gartner Group.

Central to the company's ambitions is our goal to become the leading mid-market ERPII vendor in our chosen markets. We will continue to deliver world-class products to our customers and their associated companies. Enhanced 'solution selling' training, both internally and for channel partners, has focused the team on identifying and satisfying customer needs.

During the year, several significant successes demonstrated the merits of our strategy. Willis Group, a leading global insurance broker, signed a £6 million deal in April greatly extending its existing SunSystems usage. A partnership with Micros Systems Inc, world-leader in front-office systems for hotels, was announced in August and covers the development and distribution of MICROS-Fidelio Financials powered by SunSystems.

A partnership with Brazilian-based ITG (Informação Tecnologia e Gerência s/c) strengthened the company's market leadership position for insurance industry solutions in major parts of Latin America and Asia-Pacific. Other customers include AGF (Allianz), Axis Specialty, Canada Life, CitiStreet, MAPFRE, MetLife and Mutual Risk Management (MRM).

In other sectors, new SunSystems users include Octopus Cards, operator of an electronic payment system in Hong Kong; 21ViaNet China, the largest professional internet data centre in China; Air BP, a significant global business unit of the BP Group; Standard Chartered, the world's leading emerging markets bank; and Pfizer Inc, one of the world's largest pharmaceutical companies which will use SunSystems at 60 locations worldwide.

Case Study
Aid agencies – Voluntary Services Overseas

Voluntary Services Overseas (VSO) is an international development charity that works through a network of over 29,000 global volunteers, enabling people to share their skills, knowledge and experience to improve the lives of local communities in 71 of the world's poorest countries.

When VSO was looking for an accounting solution, it sought one that would enable it to consolidate its business and financial information more efficiently at month-end. It was also essential that the solution was easy to use, could be rapidly implemented across the many regions in which VSO operates and could manage the multi-currency requirements of the organisation with minimal support.

SunSystems with its uniform, integrated ledger, multi-currency capabilities and real-time analytics proved to be the ideal solution for VSO. The solution has been deployed across 38 remote locations throughout Africa and Asia with the central office in the UK retaining control and having real-time access to business and financial information generated by all the local offices.

John Merchant, director of resources at VSO, commented: "SunSystems was chosen after consultation with Tate Bramald because it handles multi-currency effectively and because we had a positive experience of using it at our London headquarters. SunSystems has improved VSO's handling of accounts worldwide and the lack of complaints or difficulties gives us confidence that the roll out has been very successful for all staff concerned."

SunSystems is used in 194 countries

Chief Executive Officer's Review

Operational review (continued)

SunSystems (continued)

A series of launches during the year of complementary products, modules and alliances underscores the continuing enhancement by the company of its solutions offerings. For example, SunSystems Academy produces and administers computer-based training (CBT) programmes that provide flexible, cost effective means for users to update and maintain their skills. In October 2002, the organisation of scheduled classroom-based training courses was contracted to Numerica Group plc, a long-term user of SunSystems.

Within EMEA, sales revenues are split evenly between direct sales from the in-house account team and indirect sales through channel partners. In Asia-Pacific, the greater proportion is through indirect sales, whereas in The Americas, direct sales predominate.

The opening of a new office in Dubai is a major step forward. The second largest emirate has doubled its overseas trade since 1989, and its tourist and hotel market is expected to show considerable growth in the near-term. This makes the area ideal for SunSystems' hospitality experience.

Research & development
We have continued to make investment in R&D a priority to maintain the flow of state-of-the-art products. The 175 strong team at Farnborough has consistently met deadlines with a range of new offerings and enhancements.

The multi-lingual capability of our products is a major reason why customers choose our software, with SunSystems 4 now available in 30 languages. In 2002, Brazilian-Portuguese and Italian were launched for SunSystems 5, together with the double-byte languages of Japanese and simplified Chinese. In keeping with our open platform policy, SunSystems 5 became available on Oracle NT. In August, the release of SunSystems 5.1.4 added various significant enhancements, including order fulfilment, bank interface, new Report Server functionality and improved user interfaces.

SunSystems i2i Purchase Requisitioning was released during the year. This fully web-enabled, J2EE product uses either the Internet or intranets for speed of operation and deployment. The same basic product set can be used with either SunSystems 4 or SunSystems 5.

The continuing investment in SunSystems 4 has yielded enhanced user interfaces as well as withholding tax and payment preview additions, which are important in certain GAAP systems. The product is extremely stable and continues to be an important part of the SunSystems range.

Over 50 people are planned to be employed by the end of 2003 at the Shanghai R&D centre which, together with a dozen employees for sales, marketing and operations, will make the location the second largest SunSystems office after Farnborough. The centre will focus on developing products using the latest technology such as XML, Java, J2EE and Enterprise Java Beans (EJB) to ensure that we maintain our leading position.

In addition, a major programme of development, known as 'Evolution', is now underway. This framework is central to the future product strategy of the company, and will mean that SunSystems retains its place as a leading-edge software solution. The programme will use the latest technology and techniques and provide maximum agility to meet the company's development needs.

Support & services
During the year, the company extensively enhanced its help-desk support, particularly in EMEA and The Americas with English-language calls being handled at Farnborough. This has given improved and consistent levels of service with customer feedback revealing a high degree of satisfaction.

Plans have been formulated to deliver more extensive global support coverage for contracted customers, including other languages and other geographic areas, with automated routing of phone calls from customers. As a first step, a global customer database is being rolled out to unite sales & marketing activities, help-desk support and customer administration.

SunSystems PSA, the project accounting offering, is now fully used by our professional services teams to record time and billing of the consultants who install and configure SunSystems at customer premises. This product, which will continue to be rolled out across the world, has significantly improved billing and cash collection, thereby reducing DSOs.

Pegasus Software

Pegasus made excellent progress during the year with Opera II sales up 85 per cent on the previous year and now firmly established as the flagship product for the company. During the year, significant improvements were incorporated within the product enabling it to maintain the market leadership position previously held by Opera I. Reseller channel activities substantially increased with over 2,000 Opera II sites installed during the last 2 years. Additional channel partners were recruited in the UK, and notably the first channel partner appointed in New Zealand has already made some significant sales.

The product offering during the year was substantially improved by the introduction of Opera XRL reporting module. Pegasus Payroll continued to be an important part of the business with over 16,000 sites in the UK. Pegasus was the first company to achieve Inland Revenue recognition for the Internet Service PAYE end of year submission of P14 and P35 forms.

Case Study
Pegasus Software – Corinthian Television

Founded in 1980, Corinthian Television (CTV) began as a mobile editing company and was formerly part of the Carlton Communications Group. It has now grown into an award-winning television facilities company, with studios, transmission, multi-media and post-production, based in London. CTV is owned by its management and JFP Limited (the investment arm of the Telstar Group).

Sean Radcliffe, financial controller at CTV, commented: "As our business has expanded, we recognised a need for a comprehensive business and financial solution that would enable our staff to access vital management information from any of our locations at any time. In association with the value-added-reseller Intsys UK, we found the solution to our needs in Opera II from Pegasus."

CTV is at the forefront of technology and runs Opera II remotely across servers in its different locations using an ADSL (asymmetric digital subscriber line) connection. As a result, CTV staff not only benefit from the rapid delivery of business critical information wherever they are based, but also from enterprise-wide access to core financial, sales and purchasing management functionality. Opera II also delivers strong reporting and analytical functionality, which enables timely reporting and enhanced decision-making, ensuring CTV sustains its competitive advantage.

Pegasus was the first company to achieve UK Inland Revenue eSubmission approval

Chief Executive Officer's Review

Operational review (continued)

Pegasus Software (continued)

During the year, Pegasus launched Capital Community, which has resulted in over 2,500 downloads from the Internet to obtain free software. The Capital product is aimed at smaller businesses and increasing exposure is part of our longer-term strategy to grow our customer base.

Significant improvements have been made with the introduction of new technology and procedures, which greatly improve efficiency and the quality of services in our support services centre. Resellers have been invited to participate in a new service level agreement (SLA) scheme. This enables the company to focus its support activities more accurately, improve the quality of support to its resellers, and has greatly reduced support call volumes. This initiative has been reinforced by the investment in a web-enabled call logging system and those resellers that are part of the SLA scheme are able to post requests for support directly through a secure and private extranet connection. This initiative is being extended to other parts of the Pegasus services department.

The company has also re-focused its R&D and quality control resources into 2 separate business units: new product development and the maintenance of existing products. A direct result of this has positively impacted on the ability of the company to respond to technical support queries from its resellers and customers and to improve greatly its ability to service its reseller network. The combination of the improved product performance and initiatives introduced within the support and development environment enabled the company to enhance its service commitments and overall profitability.

Pegasus is now a much transformed business and an important member of the Systems Union group of companies.

REDtechnology.com

A strong recurring revenue stream underpinned an improved performance in 2002 from REDtechnology, previously know as Systems Union eBusiness Solutions. The business combines technical expertise with creativity in a variety of Internet, intranet and extranet projects for its customers.

REDtechnology also works with Systems Union sister companies. Developments include the creation of TradeIT, an integrated web-trading system for Pegasus Opera users, and extensive upgrades of SunSystems' own websites.

REDtechnology is a profitable dot.com business.

Staff

The single greatest strength of the Group is the continuing unity of thought and commitment of all our people. Every office has long-serving, loyal and dedicated personnel. They are each a vital member of the Systems Union HomeTeam.

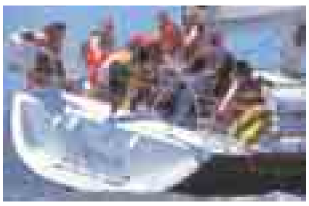
Staff members have a vested interest in the prosperity of the Group through membership of a share option scheme, which covers 75 per cent of staff, and performance-related incentives that reward achievement. If we continue to deliver our agenda I would hope to see staff benefit from an uplift in the share price and therefore the value of their options.

I should like to take this opportunity to thank all members of the HomeTeam for their hard work and contribution.

The future

In a very difficult trading environment, the Group has significantly increased its EBITDA, PBT and EPS. We have a very clear, achievable agenda and are committed to growth, organically and through strategic acquisition. Change will continue at Systems Union and we intend taking our opportunities, proactively and with purpose. We look forward, with refreshed vigour and enthusiasm, to the challenges ahead.

Paul Coleman
Chief Executive Officer


Case Study REDtechnology – BoysStuff.co.uk

BoysStuff was founded in 1997 as a specialist provider of innovative gadgets and gifts. Although the company had had notable successes using traditional catalogue marketing, it recognised the need for a compelling website and an effective e-business solution that would enable customers to make purchases and payments online. It sought a specialist partner and, following extensive evaluation, REDtechnology was selected to design and develop this e-business solution.

The team at REDtechnology and BoysStuff worked closely together to integrate complex front and back-end systems. The result has been the development of a unique solution that enables customers to search effectively for a product, obtain stock and delivery availability and place orders online.

REDtechnology monitors and manages the web system from its resilient and secure data centre in London, leaving BoysStuff to focus on its business and customers.

Mav Perivolaris, IT director at BoysStuff, commented: "REDtechnology's expertise ensures that our web system is available and performing to peak efficiency and effectiveness 24 x 7. Our business depends on this level of service assurance from REDtechnology and we continue to be delighted with its commitment to service and experience in fine-tuning our systems to deliver optimum performance."

80,000 users of Pegasus Opera and Opera II

Directors and Advisers

Directors	**A L R Morton**	Non-executive Chairman
	P J Coleman	Chief Executive Officer
	A C S Sweet	Chief Financial Officer
	J L Pemberton	Non-executive Director
Company Secretary	**P G Larking**	
Registered Office	Systems Union House 1 Lakeside Road Aerospace Centre Farnborough Hampshire GU14 6XP	
Registered in England and Wales	**Number 2735281**	
Nominated adviser and joint nominated broker	**WestLB Panmure Limited** Woolgate Exchange 25 Basinghall Street London EC2V 5HA	
Joint nominated broker	**KBC Peel Hunt Limited** 4th Floor 111 Old Broad Street London EC2N 1PH	
Auditor	**KPMG Audit Plc** Arlington Business Park Theale Reading RG7 4SD	
Solicitors	**Allen & Overy** One New Change London EC4M 9QQ	
Bankers	**Barclays Bank plc** 54 Lombard Street London EC3V 9EX	
Registrars	**Capita Registrars** The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	

Directors' Report

The directors present their Annual Report together with the audited Consolidated Financial Statements for the year ended 31 December 2002.

Principal activities and business review

The Group's principal activity is the design, development, production and distribution of financial and business software, sold under the SunSystems and Pegasus brands to international and domestic markets. E-commerce, Internet hosting and support services are sold through REDtechnology.com.

A review of the Group's operations is included within the Chief Executive Officer's Review on pages 6 to 14.

Financial results and dividends

Details of the results for the year ended 31 December 2002 are set out on pages 24 to 42 of the report and further details are contained in the Chairman's Statement and the Chief Executive Officer's Review.

Turnover for the year was £74,631,000 (2001: £78,385,000) and profit after taxation was £3,933,000 (2001: £2,043,000).

No interim dividend has been paid and the directors recommend that no final dividend be paid for the year (2001: nil).

Capital reduction

On 23 September 2002, at an Extraordinary General Meeting of the Company, a Resolution was passed to reduce the share premium account by £26,540,198 subject to approval by the High Court. Following the presentation of a Petition, approval was given by the Court on 16 October 2002.

The effect of this capital reduction is to enable the directors to recommend payment of dividends from future profits at a significantly earlier date than would otherwise have been the case.

Product development

Expenditure on research & development was £10,544,000 (2001: £12,052,000). The Company continues to attach considerable importance to the updating of its products, either by internal development or the purchase of external software products where this is more appropriate.

Directors and their interests

The directors who have served during the year are:
A L R Morton
P J Coleman
A C S Sweet (appointed 1 December 2002)
J L Pemberton

Bob Morton (61) has been non-executive chairman since 1995, when he first invested in the Company. Mr Morton is the chairman of a number of companies in the IT sector including Harrier Group plc, BSoftB plc, Clarity Commerce Solutions plc and InterClubNet plc. He is also chairman of Vislink plc, MacLellan Group plc and Armour Group plc.

Paul Coleman (51) has over 30 years experience with wide ranging knowledge of a number of industries both in the UK and internationally. Prior to joining the Systems Union Group in 2000, he was the group finance director and investment analyst at the Carlisle Group plc and European finance director at the international security company ADT Group plc.

Tony Sweet (48) was appointed as a director upon joining the Company on 1 December 2002. Up to the time of his appointment, Tony Sweet was a partner at PricewaterhouseCoopers. He has experience as an audit partner and on mergers & acquisitions in the UK and Europe.

John Pemberton (54) was the founder and major shareholder of Systems Union Group Limited, prior to its incorporation into the enlarged Group. He was the architect of the SunSystems business and financial management software, which forms the cornerstone of the business interests of the Group. He is a graduate of the London School of Economics.

Directors' Report

Directors and their interests (continued)

The beneficial and family interests of the directors in the share capital of the Company as recorded in the register maintained by the Company in accordance with the provisions of the Companies Act 1985 were as follows:

	At 31 December 2002	At 1 January 2002
	5p ordinary shares	5p ordinary shares
A L R Morton	10,860,520	8,835,520
P J Coleman	150,000	100,000
A C S Sweet	10,000	Nil
J L Pemberton	4,846,308	4,846,308

A C S Sweet and J L Pemberton retire from the Board in accordance with the Company's Articles of Association and offer themselves for re-election.

Substantial shareholdings

Save for the interests of A L R Morton and J L Pemberton, which are noted above, the directors are aware of the following who are interested directly or indirectly in 3 per cent or more of the Company's shares.

	Number of shares	Percentage of share capital
Artemis Unit Trust Management Limited	12,900,000	12.41
M & G Investment Management Limited	10,303,382	9.91
ISIS Asset Management Limited	6,529,768	6.28
Henderson Global Investors Limited	6,381,383	6.14
Jupiter Asset Management Limited	5,820,840	5.60
Framlington Investment Management Limited	3,222,829	3.10

The Company has an interest in 9 million shares which are held in trust for the benefit of the Group. This holding represents 8.66 per cent of the current issued share capital of the Company.

Employees

Every effort is made to keep all staff informed and involved in the operations and progress of the Group. This is achieved through the use of electronic communications, staff briefings and newsletters. It is the Group's aim that recruitment and development of staff should be determined solely on ability and other relevant requirements of the job. Disabled persons and those who become disabled are given the same consideration as others and, depending on their skills, will enjoy the same prospects as other staff.

The Group's policies on Health & Safety are continually under review, ensuring that current practices comply with the laws applicable in the countries in which we operate.

Payment of suppliers

The Company agrees appropriate terms & conditions individually with its suppliers. It seeks to abide by these agreed terms provided that the supplier has also complied with them. The number of creditors days at 31 December 2002 was 39 (31 December 2001: 45 days).

Donations

There were no political donations during the year. Donations of a charitable nature amounted to £3,753 (2001: £2,922).

Directors' and officers' insurance

The Company maintains an insurance policy for all directors and officers of the Company against liabilities which may be incurred by them while acting as directors and officers.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Registered Office at 12:30pm on 30 April 2003. The notice of the meeting, detailing the Ordinary and Special Business to be conducted is set out on pages 43 to 44 to this report.

Auditor

A Resolution to re-appoint KPMG Audit Plc as auditor to the Company, at a level of remuneration to be agreed by the directors, will be put to the shareholders at the Annual General Meeting.

By Order of the Board

P G Larking
Secretary

24 March 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.

Remuneration Report

Policy on remuneration of directors and senior management

Remuneration of the executive directors is agreed by the Remuneration Committee. Terms of appointment of senior management are approved by the chief executive officer. Policies are designed to attract, motivate and retain high calibre individuals and to reward them for enhancing value to shareholders.

Salary and other benefits

Salaries are reviewed periodically and have regard to remuneration packages of similar public companies operating in the computer services industry. Policies concerning other employment benefits are reviewed on a regular basis.

Bonus

At the outset of each financial year, the Remuneration Committee agrees an annual bonus target for the executive directors. Certain other senior staff have bonus arrangements, which are dependent on the performance of the Group and the individual.

Share options

The Company operates an Inland Revenue Approved share option scheme, which includes the grant of Unapproved and Super options. Details of the options outstanding for directors are detailed in this report. The Company has a policy of granting share options to staff at all levels and details of the options outstanding are set out in note 17 of the Financial Statements.

The Remuneration Committee, at their meeting on 20 March 2003, determined that the vesting criteria for Super options, based on share price performance, were beyond the direct control of the executive directors and senior management. They further determined that the future vesting criteria for Super options should be based upon the improvement to adjusted earnings per share of 10 per cent each year.

The Committee determined that to acknowledge the achievements of the Super option holders, the financial years 2001 and 2002 are regarded as years in which the required performance levels had been achieved. As a consequence of this decision, a proportion of existing options vested on 20 March 2003. Super options are capable of exercise at the rate of 25 per cent of those options that have vested, in 6 monthly intervals, commencing 3 years after the date of grant.

Pensions

The Company makes a contribution of 10 per cent of the basic salary to a personal pension scheme on behalf of the executive directors. Defined contributions are made to personal pension plans for other staff within the Group. In some Group companies, these are dependent upon participating staff making a personal contribution.

Directors' remuneration

	Salary and fees £	Performance bonus £	Benefits in kind £	Pension contributions £	**2002 £**	2001 £
A L R Morton*	30,000	Nil	Nil	Nil	**30,000**	30,000
P J Coleman	200,000	150,000	26,828	20,000	**396,828**	452,025
A C S Sweet**	10,000	Nil	1,000	Nil	**11,000**	Nil
J L Pemberton*	35,333	Nil	Nil	Nil	**35,333**	71,356
J G Glicker***	Nil	Nil	Nil	Nil	**Nil**	9,000
	275,333	150,000	27,828	20,000	**473,161**	562,381

* Non-executive and member of the Audit and Remuneration Committees
** Appointed 1 December 2002
*** Resigned 6 September 2001

Directors' service agreements

A L R Morton, P J Coleman, A C S Sweet and J L Pemberton each has an agreement with the Company capable of termination on 6, 12, 6 and 3 months' notice, respectively.

Directors' share options

The executive directors have options granted under the Systems Union Group Employee Share Option Scheme (1999). The conditions and status of the option grants are as follows:

Mr Coleman was granted 2,000,000 Super options on 13 December 2000 at 61.5 pence. 1,333,334 of those options vested on 20 March 2003. The remaining 666,666 Super options are capable of vesting in March 2004. In addition, Mr Coleman has 500,000 Ordinary options, granted on 18 March 2002 at 90.5 pence. These options are capable of exercise between 18 March 2005 and 18 March 2012.

Mr Sweet was granted 400,000 Super options on 5 December 2002 at 70.0 pence. These options are capable of vesting from March 2004. In addition, Mr Sweet has 100,000 Ordinary options granted on 5 December 2002 at 70.0 pence. These options are capable of exercise between 5 December 2005 and 5 December 2012.

Corporate Governance

The directors are responsible for the Company's system of corporate governance. The Company supports the Principles of Good Governance and the Code of Best Practice ('the Combined Code').

Whilst the Company is not required to comply with the provisions of the Combined Code, it has chosen to make the following voluntary disclosures.

Board and management reporting

The Board currently comprises the chief executive officer, the chief financial officer, the non-executive chairman and one other non-executive director and meets regularly throughout the year. The Board has adopted a schedule of matters to be specifically reserved for its decision, in accordance with the provisions of the Combined Code.

Each operating company and business unit produces comprehensive management reports each month. A summary of these reports is presented to the Board at its monthly meeting. Such information includes details of the key features of the Group's performance and an analysis against budget of revenue and expenditure.

Directors' remuneration

The Board has established a Remuneration Committee comprising the chairman and non-executive director. Details of the Company's remuneration policy are contained in the Remuneration Report on page 20. The Committee makes its decisions following consultation with the chief executive officer and has access to external professional advice if required.

Accountability and audit

The Board seeks to ensure that its Annual Report and Financial Statements provide a balanced and concise assessment of the Company's position. The Board has established an Audit Committee comprising the chairman and non-executive director. This Committee meets as necessary and provides a forum for the non-executive directors to meet with the external auditor.

Internal control

The directors are responsible for the systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The key elements of the Group's system of internal control are as follows:

Financial management

Detailed annual budgets are prepared for the Group and each operating company. These budgets are reviewed and agreed by the Board and actual performance is reported against these budgets on a regular basis. The Company has in place documented authority levels for approving purchase orders, invoices and all bank transactions. Further information concerning financial risk management is detailed in note 16 of the Financial Statements.

Company management

The chief executive officer chairs a global management board for the Group comprising the regional chief executives, certain subsidiary company directors and other senior executives with global responsibilities for sales, marketing, service support, technology, product development and finance. Additionally, there are regular meetings of a product strategy forum where the future direction of the Group's product offerings and routes to market are considered. There are also regular Board meetings of all subsidiary companies in the UK and overseas.

Quality management

The Company's businesses are focused on meeting the highest levels of customer satisfaction. Quality procedures for the development of the products, services and maintenance support are documented and kept under constant review. Systems Union Holdings Limited's management systems are certified ISO9001:2000 and TickIT.

Corporate Governance

Internal control (continued)

Business risks and computer systems

The Company has established controls and procedures over the security of the data held on its computer systems. Such arrangements are tested regularly and reviewed. The Company has in place business continuity plans and off-site emergency facilities are available. Appropriate insurance policies are in place.

Internal audit

The Company has an internal audit function whose role is to provide independent verification to the Board and to management of the organisation's day-to-day activities and results. The audit plan used to control the scope and frequency of audits is risk-based. Where any problems or opportunities are identified as the result of audits, they are logged formally and followed through to completion. The internal audit function may also carry out ad-hoc reporting and investigations for the Board, or for individual directors and managers.

Dialogue with institutional shareholders

The directors of the Company, together with their advisers, hold regular meetings with the key institutional shareholders, thereby helping to ensure that there is a mutual understanding of objectives.

Going concern

After making due and careful enquiry, the directors have formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt a 'Going Concern' basis in preparing the Financial Statements.

Auditor's Report

Independent Auditor's Report to the members of Systems Union Group plc

We have audited the Financial Statements on pages 24 to 42.

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 auditor

The directors are responsible for preparing the Directors' Report and, as described on page 19, the Financial Statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditor, 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.

We read the other information accompanying the Financial Statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements.

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 affairs of the Company and the Group as at 31 December 2002 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 Audit Plc
Chartered Accountants
Registered Auditor

Reading

24 March 2003

Consolidated Profit & Loss Account

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Turnover	1,2	74,631	78,385
Cost of operations	1	(55,420)	(61,184)
Research & development	1	(10,544)	(12,052)
EBITDA		8,667	5,149
Profit on disposal of properties		—	1,586
Depreciation		(983)	(1,385)
Amortisation of intangibles		(3,924)	(3,590)
Operating profit		3,760	1,760
Net interest receivable	3	556	429
Profit on ordinary activities before taxation	4	4,316	2,189
Taxation on profit on ordinary activities	7	(383)	(146)
Profit for the financial year		3,933	2,043
Earnings per share	8		
– basic		3.8p	2.0p
– diluted		3.7p	1.9p
Adjusted earnings per share	8		
– basic		7.2p	3.9p
– diluted		7.1p	3.8p

All results relate to continuing operations.

There is no difference between the retained profit for the year stated above and its historical cost equivalent.

Consolidated Balance Sheet

as at 31 December 2002

	Note	2002 £000	restated 2001 £000
Fixed assets			
Intangible assets	9	**62,842**	65,653
Tangible assets	10	**4,105**	4,469
Investments	11	**6,300**	6,300
		73,247	76,422
Current assets			
Debtors	12	**18,840**	19,448
Cash at bank and in hand		**18,874**	15,293
		37,714	34,741
Creditors: amounts falling due within 1 year	13	**(12,820)**	(17,745)
Net current assets		**24,894**	16,996
Total assets less current liabilities		**98,141**	93,418
Creditors: amounts falling due after more than 1 year	14	**—**	(826)
Provisions for liabilities and charges	15(c)	**(1,310)**	(2,204)
Deferred income		**(15,907)**	(13,178)
Net assets		**80,924**	77,210
Capital and reserves			
Called up share capital	17	**5,196**	5,172
Share premium account	18	**9,478**	35,963
Merger reserve	18	**50,582**	54,118
Warrant reserve	18	**1,340**	1,476
Profit & loss account	18	**14,328**	(19,519)
Equity shareholders' funds		**80,924**	77,210

These financial statements were approved by the Board of Directors on 24 March 2003 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

Company Balance Sheet

as at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Intangible assets	9	**937**	—
Tangible assets	10	**373**	390
Investments	11	**61,616**	60,752
		62,926	61,142
Current assets			
Debtors	12	**6,908**	10,452
Cash at bank and in hand		**16,156**	13,463
		23,064	23,915
Creditors: amounts falling due within 1 year	13	**(12,006)**	(11,144)
Net current assets		**11,058**	12,771
Net assets		**73,984**	73,913
Capital and reserves			
Called up share capital	17	**5,196**	5,172
Share premium account	18	**9,478**	35,963
Merger reserve	18	**57,662**	57,662
Warrant reserve	18	**1,340**	1,476
Profit & loss account	18	**308**	(26,360)
Equity shareholders' funds		**73,984**	73,913

These financial statements were approved by the Board of Directors on 24 March 2003 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Operating profit		**3,760**	1,760
Amortisation		**3,924**	3,590
Depreciation		**983**	1,385
(Profit)/loss on sale of fixed assets		**(21)**	34
(Profit) on sale of properties		**—**	(1,586)
		8,646	5,183
Movement in working capital	20	**(3,573)**	(1,748)
Cash inflow from operating activities		**5,073**	3,435
Returns on investments and servicing of finance	21	**556**	429
Taxation		**(78)**	27
Purchase of tangible fixed assets		**(799)**	(1,172)
Purchase of investments		**—**	(80)
Purchase of licences		**(1,250)**	(150)
Disposal of properties held for sale		**—**	8,888
Cash inflow before management of liquid resources and financing		**3,502**	11,377
Management of liquid resources		**—**	4,000
Financing	21	**79**	(5,219)
Increase in cash in the year		**3,581**	10,158
Cash flow from change in debt		**—**	5,300
Cash inflow from decrease in liquid resources		**—**	(4,000)
Movement in net funds		**3,581**	11,458
Net funds at 1 January 2002		**15,293**	3,835
Net funds at 31 December 2002		**18,874**	15,293

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 31 December 2002

	2002 £000	2001 £000
Profit for the financial year	3,933	2,043
Exchange adjustments	(162)	(336)
Total recognised gains and losses relating to the financial year	3,771	1,707
Prior year adjustment (Note 1(b))	867	—
Total recognised gains and losses since last Annual Report	4,638	1,707

Reconciliation of Movements in Shareholders’ Funds
for the year ended 31 December 2002

	2002 £000	2001 £000
Profit for the financial year	3,933	2,043
Other recognised gains and losses relating to the year	(162)	(336)
New share capital subscribed	79	81
Movement in warrant reserve	(136)	(193)
Net addition to equity shareholders' funds	3,714	1,595
Equity shareholders' funds at 1 January 2002	77,210	74,748
Prior year adjustment (Note 1(b))	—	867
Equity shareholders' funds at 31 December 2002	80,924	77,210

Notes to the Accounts

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.

a) Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United Kingdom (UK GAAP) and under the historical cost convention.

b) Changes in accounting policies

The Group has adopted FRS 19 'Deferred Tax' in these financial statements. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 19 is given in note (n) below.

c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2002. 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 & 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 & loss account.

d) Goodwill and intangible assets

Intangible assets are stated at cost. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recognised in the profit & loss account.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation of acquisitions is capitalised and amortised to nil by equal annual instalments over its estimated useful life of 20 years.

Licences are included at cost and amortised in equal annual instalments over their estimated useful economic lives.

e) Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recognised in the profit & loss account.

f) Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal annual instalments over their estimated useful economic lives as follows:

Freehold buildings	– 50 years
Leasehold land and buildings	– period of lease
Office equipment	– 2 to 4 years
Motor vehicles	– 4 years

No depreciation is provided on freehold land.

g) 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 & loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit & 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.

h) Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are included in liabilities. Operating lease rentals are charged to the profit & loss account on a straight-line basis over the period of the lease.

Notes to the Accounts

1 Accounting policies (continued)

i) Cash and liquid resources

Cash and liquid resources for the purposes of the cash flow statement comprise cash in hand and deposits repayable on demand.

j) Pension costs

The Group operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the profit & loss account represents the contributions payable to the schemes in respect of the accounting period.

k) Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. Revenue from licence fees is recognised on the later of delivery or contract provided no significant future obligation exists. Income from maintenance services is recognised on a straight-line basis over the period to which the maintenance agreement relates. Revenue not recognised in the profit & loss account under this policy is classified as deferred income in the balance sheet. Revenue from professional services is recognised as the work is performed.

l) Cost of operations

Having regard to the nature of the Group's business, the analysis of operating costs as prescribed by the Companies Act 1985 is not meaningful. In the circumstances, as prescribed by paragraph C3(3) of Schedule 4 of the Companies Act 1985, the directors have adapted the prescribed format to the requirements of the Group's business.

m) Research & development expenditure

Expenditure on research & development is charged to the profit & loss account in the year in which it is incurred.

n) Taxation

With effect from 1 January 2002, the Group changed its accounting policy with respect to deferred tax upon the adoption of Financial Reporting Standard No. 19 'Deferred Tax' ('FRS 19'). FRS 19 introduces a form of full provision for accounting for deferred tax, called the incremental liability approach, which replaces the partial provision approach previously followed under SSAP 15.

Deferred tax is now provided on timing differences where the Group has an obligation to pay more tax in the future as a result of those timing differences. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Previously, deferred tax was provided on timing differences to the extent that they were expected to reverse in the foreseeable future.

Deferred tax unprovided as at 31 December 2001, and which is now required to be provided for under FRS 19, has been provided for and shown as a prior year adjustment. The impact on the profit & loss account for the year ended 31 December 2002 is a charge of £65,000. There was no impact on the profit & loss account for the year ended 31 December 2001. Shareholders' funds at 31 December 2001 have been increased by £867,000.

o) Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares is recognised over the period of the employee's related performance. The cost represents the difference between the option exercise price and the market value of the shares at the date of the grant of the option. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares. No provision is made for employer's NIC associated with any gains on vested share options on the basis that this expense is recoverable from the employee.

2 Segmental analysis

The directors consider there to be only 1 class of business being the development and distribution of business software.

a) The geographical analysis of turnover is given below:

	2002 £000	2001 £000
Europe, Middle East & Africa	**45,566**	45,730
The Americas	**12,993**	16,173
Asia-Pacific	**16,072**	16,482
	74,631	78,385

b) An analysis by revenue type is given below:

	2002 £000	2001 £000
Licence	**26,690**	31,581
Maintenance	**31,716**	27,487
Services	**16,225**	19,317
	74,631	78,385

3 Net interest receivable

	2002 £000	2001 £000
Bank interest receivable	**556**	510
Interest payable:		
– On bank loans and overdrafts	—	(28)
– On all other loans	—	(53)
	556	429

4 Profit on ordinary activities before taxation

	2002 £000	2001 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditor's remuneration – Group audit	**135**	130
– Company audit	**30**	30
– other fees paid to the auditor	**49**	90
Depreciation	**983**	1,385
Amortisation of intangible fixed assets	**3,924**	3,590
Exchange gains (net)	**(444)**	(165)
Operating lease rentals: land and buildings	**3,353**	3,320
Operating lease rentals: other assets	**1,792**	1,371

Notes to the Accounts

5 Directors' remuneration and shareholdings

Information covering directors' remuneration (including pension entitlements), interest in shares and share options is included in the Directors' Report pages 17 to 19 and the Remuneration Report on page 20.

6 Staff numbers and costs

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

	Number of employees	
	2002	2001
Selling	**184**	195
Research and technical	**368**	355
Management and administration	**217**	230
	769	780

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	**32,269**	33,258
Social security costs	**3,466**	3,383
Other pension costs	**1,083**	1,325
	36,818	37,966

7 Taxation

a) Analysis of charge

	2002 £000	2001 £000
Current tax		
UK corporation tax	**—**	—
Overseas tax	**318**	146
Deferred tax		
Origination and reversal of timing differences	**65**	—
Total tax charge	**383**	146

7 Taxation (continued)

b) Factors affecting tax charge

The current tax charge for the year is lower (2001: lower) than the standard rate of corporation tax in the UK of 30 per cent (2001: 30 per cent). The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities before taxation	4,316	2,189
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent (2001: 30 per cent)	1,295	657
Effect of:		
Charges not deductible for tax purposes*	1,065	1,716
Capital allowances in excess of depreciation	(10)	(272)
Utilisation of tax losses	(2,000)	(1,870)
Lower tax rates on overseas earnings	(32)	(85)
Current tax charge for the year	318	146

* Primarily amortisation of goodwill

Certain United Kingdom subsidiaries have trading losses which as at 31 December 2002 amounted to £6.0 million which are available for offset against future trading income. There are further losses available to certain overseas subsidiaries amounting to £11.1 million. No deferred tax assets have been recognised in respect of these timing differences as the ability of the Group to obtain tax relief is dependent upon suitable profits arising in the relevant statutory companies in the future which are either not currently foreseen or cannot be estimated with sufficient certainty.

8 Earnings per share

The calculation of the basic earnings per share is based on the profit for the financial year divided by the weighted average number of shares in issue during the year.

a) Adjusted earnings is calculated as follows:

	2002 £000	2001 £000
Profit for the financial year	3,933	2,043
Amortisation of goodwill	3,536	3,590
Profit on disposal of properties	—	(1,586)
Adjusted earnings for the financial year	7,469	4,047

b) Number of shares (in thousands)

	2002	2001
Weighted average number of shares – used to calculate basic earnings per share	103,760	103,310
Effect of dilutive share options	1,993	2,399
Number of shares used to calculate diluted earnings per share	105,753	105,709

Notes to the Accounts

9 Intangible fixed assets

Group	Licences £000	Goodwill £000	Total £000
Cost			
At 1 January 2002	1,335	84,368	85,703
Adjustments	—	(137)	(137)
Additions	1,250	—	1,250
At 31 December 2002	**2,585**	**84,231**	**86,816**
Amortisation and impairment			
At 1 January 2002	1,229	18,821	20,050
Charge for the year	388	3,536	3,924
At 31 December 2002	**1,617**	**22,357**	**23,974**
Net book value			
At 1 January 2002	106	65,547	65,653
At 31 December 2002	**968**	**61,874**	**62,842**

Company	Licences £000
Cost	
At 1 January 2002	—
Additions	1,250
At 31 December 2002	**1,250**
Amortisation	
At 1 January 2002	—
Charge for the year	313
At 31 December 2002	**313**
Net book value	
At 1 January 2002	—
At 31 December 2002	**937**

10 Tangible fixed assets

Group	Land and buildings £000	Office equipment £000	Total £000
Cost			
At 1 January 2002	3,643	3,672	7,315
Additions	28	798	826
Transfer to current assets	(167)	—	(167)
Disposals	—	(307)	(307)
Exchange differences	(32)	(3)	(35)
At 31 December 2002	**3,472**	**4,160**	**7,632**
Depreciation			
At 1 January 2002	483	2,363	2,846
Charge for the year	152	831	983
On disposals	—	(302)	(302)
At 31 December 2002	**635**	**2,892**	**3,527**
Net book value:			
At 1 January 2002	3,160	1,309	4,469
At 31 December 2002	**2,837**	**1,268**	**4,105**

Company	Land and buildings £000	Office equipment £000	Total £000
Cost			
At 1 January 2002 and at 31 December 2002	**361**	**49**	**410**
Depreciation			
At 1 January 2002	6	14	20
Charge for the year	7	10	17
At 31 December 2002	**13**	**24**	**37**
Net book value:			
At 1 January 2002	355	35	390
At 31 December 2002	**348**	**25**	**373**

The net book value of land and buildings comprises:

	Group		Company	
	2002 £000	2001 £000	**2002 £000**	2001 £000
Freehold	**2,167**	2,388	**348**	355
Long leasehold	**670**	772	**—**	—
	2,837	3,160	**348**	355

Notes to the Accounts

11 Fixed asset investments

Group	Interest in own shares £000
Cost and net book value at 1 January 2002 and 31 December 2002	**6,300**

The market value of the Interest in own shares at 31 December 2002 was £6,525,000 (2001: £7,515,000).

Company	Interest in own shares £000	Shares in subsidiary undertakings £000	Total £000
Cost			
At 1 January 2002	6,300	78,664	84,964
Adjustments	—	(136)	(136)
Additions	—	1,000	1,000
At 31 December 2002	**6,300**	**79,528**	**85,828**
Amounts written off at 1 January 2002 and 31 December 2002	—	**24,212**	**24,212**
Net book value:			
At 1 January 2002	6,300	54,452	60,752
At 31 December 2002	**6,300**	**55,316**	**61,616**

The principal wholly-owned subsidiary undertakings of Systems Union Group plc at 31 December 2002 were as follows:

	Country of incorporation/registration
Systems Union Holdings Limited	England and Wales
Pegasus Group plc	England and Wales
Red Technology Services Limited	England and Wales

The shares in the following wholly-owned subsidiary undertakings were held indirectly by Systems Union Group plc at 31 December 2002:

	Country of incorporation/registration
Pegasus Software Limited	England and Wales
Systems Union SA	Argentina
Systems Union Pty Limited	Australia
Systems Union Ltda	Brazil
Systems Union Inc	Canada
Systems Union Limited	England and Wales
Systems Union Sarl	France
Systems Union GmbH	Germany
Systems Union Limited	Hong Kong
Systems Union Limited	Japan
Systems Union Mexico SA de CV	Mexico
Systems Union Software Pte Limited	Singapore
SunSystems Iberica Spa	Spain
Systems Union Inc	USA

The above companies operated principally in their countries of incorporation/registration.

The principal activity of the trading subsidiary undertakings is the development and distribution of financial and business management software solutions and associated services.

12 Debtors

	Group		Company	
	2002 £000	restated 2001 £000	2002 £000	2001 £000
Trade debtors	**13,601**	14,974	**—**	—
Amounts owed by Group undertakings	**—**	—	**6,881**	10,395
Other debtors	**1,451**	1,392	**24**	54
Prepayments and accrued income	**2,986**	2,215	**3**	3
Deferred tax asset (Note 15(a))	**802**	867	**—**	—
	18,840	19,448	**6,908**	10,452

13 Creditors: amounts falling due within 1 year

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Trade creditors	**4,142**	6,642	**49**	—
Amounts owed to Group undertakings	**—**	—	**11,351**	10,306
Corporate taxation	**341**	272	**—**	—
Other tax and social security	**1,126**	1,268	**22**	20
Other creditors	**1,767**	3,701	**33**	63
Accruals	**5,444**	5,862	**551**	755
	12,820	17,745	**12,006**	11,144

14 Creditors: amounts falling due after more than 1 year

	Group	
	2002 £000	2001 £000
Other creditors	**—**	826

Notes to the Accounts

15 Provisions for liabilities and charges

a) Deferred tax asset provided in the accounts comprise:

Group	2002 £000	restated 2001 £000
Tax losses carried forward	**802**	867

b) Analysis of movement in the year

	Group £000
Deferred tax provision/(asset) at 1 January 2002	—
Prior year adjustment (note 1(b))	**(867)**
As restated at 1 January 2002	**(867)**
Deferred tax charge for the year (note 7(a))	**65**
Deferred tax provision/(asset) at 31 December 2002	**(802)**

c) Other provisions

Group	Taxation £000	Other provisions £000	Total £000
At 1 January 2002	1,629	575	2,204
Utilised during year	(500)	(307)	(807)
Exchange differences	(87)	—	(87)
At 31 December 2002	**1,042**	**268**	**1,310**

16 Financial instruments and risk management

Financial instruments

The Group's financial instruments comprise cash and liquid resources and an Interest in own shares, together with various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to fund the Group's operations as well as to manage working capital and liquidity.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, interest rate risk and market price risk. The Group monitors these risks through a central treasury management function, which invests surplus funds and manages borrowings.

Liquidity risk

The Group finances its operations through a combination of retained profits, new equity and intercompany loans. The Group started the year with £15.3 million in cash and liquid resources. At 31 December the Group's cash and liquid resources were at £18.9 million. The Group continues to monitor its liquidity position through detailed cash forecasting.

Foreign currency risk

The Group's principal exposure to foreign currency risk arises on the translation of overseas net assets and profits or losses into sterling for Group accounting purposes. The exposure is reviewed periodically to minimise the risk of any exchange movements having a material impact on operating profit. The balance sheet exposure is not significant to the overall consolidated net asset position but the position is monitored with a view to matching non-sterling assets and borrowings.

Market price risk

In addition to interest rate and foreign currency risks, the Group is exposed to market price risk relating to its Interest in own shares. The carrying value of this asset is £6.3 million. As at 31 December 2002 the market value was approximately £6.5 million (2001: £7.5 million).

Financial assets

There were no fixed rate deposits at 31 December 2002 or 31 December 2001.

Surplus cash is invested by Group treasury in institutional liquidity funds which achieve above average market rates of returns without compromising capital protection. The funds are readily accessible.

The average interest rate earned during 2002 was 3.9 per cent. (2001: 5.1 per cent). Other than the Interest in own shares (note 11), the fair value of the financial assets approximates to their book values.

Financial liabilities

The Group had no financial liabilities as at 31 December 2002, other than trade and other creditors and accruals.

17 Share capital

	2002 Number	**2002 £000**	2001 Number	2001 £000
Authorised:				
Equity: ordinary shares of 5p each	**200,000,000**	**10,000**	200,000,000	10,000
Allotted, called up and fully paid:				
Equity: ordinary shares of 5p each	**103,927,689**	**5,196**	103,430,326	5,172

During the year, 497,363 ordinary shares were issued at an aggregate nominal value of £24,868 and at a premium of £55,011 as a result of exercise of share options.

Notes to the Accounts

17 Share capital (continued)

Share option schemes

At 31 December 2002 the following options over ordinary shares of the Company granted to employees were outstanding:

Systems Union Group plc Employee Share Option Scheme (1999)

Ordinary options

Date of Grant	Number of shares	Exercise Period	Exercise Price (pence)
28 February 2000	3,987	15 June 2000 – 28 August 2003	352.5
27 June 2000	657,197	27 June 2003 – 27 June 2010	63.0
9 October 2000	150,000	9 October 2003 – 9 October 2010	55.0
26 October 2000	3,436,394	26 October 2003 – 26 October 2010	51.5
7 November 2000	100,000	7 November 2003 – 7 November 2010	53.0
20 December 2000	572,827	20 December 2003 – 20 December 2010	70.5
3 January 2001	75,000	3 January 2004 – 3 January 2011	67.5
13 February 2001	75,000	13 February 2004 – 13 February 2011	85.5
6 April 2001	1,237,778	6 April 2004 – 6 April 2011	63.5
26 June 2001	301,692	26 June 2004 – 26 June 2011	62.5
28 November 2001	693,253	28 November 2004 – 28 November 2011	82.5
18 March 2002	713,000	18 March 2005 – 18 March 2012	90.5
5 December 2002	100,000	5 December 2005 – 5 December 2012	70.0
	8,116,128		

Super options

Date of grant	Number of shares	Options vested	Exercise price (pence)
13 December 2000	2,000,000	1,333,334	61.5
18 May 2001	1,250,000	833,334	77.0
26 June 2001	200,000	133,334	62.5
28 November 2001	125,000	41,667	82.5
18 March 2002	600,000	200,000	90.5
5 December 2002	400,000	Nil	70.0
	4,575,000	2,541,669	

Options are capable of exercise, at the rate of 25 per cent of those options that have vested, in 6 monthly intervals, commencing 3 years after the date of grant.

Pegasus Group plc Employee Sharesave Scheme

Date of grant	Number of shares	Exercise period	Exercise price (pence)
1 October 1998	11,273	1 November 2003 – 30 April 2004	104.0

Oneview.net Approved/Unapproved Share Option Scheme

Date of Grant	Number of shares	Exercise period	Exercise price (pence)
22 September 1999	560,000	24 May 2000 – 22 September 2009	61.0

Systems Union Group Limited Employee Share Scheme

Date of Grant	Number of shares	Exercise period	Exercise price (pence)
7 May 1999	204,700	3 May 2000 – 7 May 2009	108.0
1 April 2000	153,593	3 May 2000 – 1 April 2010	108.0
	358,293		

Total of options outstanding to employees and ex-employees (including directors)	**13,620,694**

18 Share premium and reserves

Group	Share premium account £000	Merger reserve £000	Warrant reserve £000	Profit & loss account £000
At 1 January 2002 (as previously reported)	35,963	54,118	1,476	(20,386)
Prior year adjustment – (note 1(b))	—	—	—	867
At 1 January 2002 (as restated)	35,963	54,118	1,476	(19,519)
Profit for the financial year	—	—	—	3,933
Premium on share issues	55	—	—	—
Transfers	—	(3,536)	—	3,536
Other movements	—	—	(136)	—
Capital reduction	(26,540)	—	—	26,540
Exchange adjustments	—	—	—	(162)
At 31 December 2002	**9,478**	**50,582**	**1,340**	**14,328**

Company	Share premium account £000	Merger reserve £000	Warrant reserve £000	Profit & loss account £000
At 1 January 2002	35,963	57,662	1,476	(26,360)
Retained profit for the year	—	—	—	128
Premium on share issues	55	—	—	—
Capital reduction	(26,540)	—	—	26,540
Other movements	—	—	(136)	—
At 31 December 2002	**9,478**	**57,662**	**1,340**	**308**

On 16 October 2002, following approval by shareholders of a Special Resolution, the High Court confirmed that the share premium could be reduced by £26,540,198. This has been reflected as a transfer to the profit & loss account.

19 Commitments

(a) The Group and Company have no contracted capital commitments at 31 December 2002.

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

	2002		2001	
Group	**Land and buildings £000**	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within 1 year	**287**	**663**	546	451
In the 2nd to 5th years inclusive	**1,160**	**947**	980	1,229
After 5 years	**1,974**	**2**	2,111	14
	3,421	**1,612**	3,637	1,694

	2002		2001	
Company	**Land and buildings £000**	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within 1 year	**—**	**—**	—	29
In the 2nd to 5th years inclusive	**—**	**60**	—	9
	—	**60**	—	38

Notes to the Accounts

20 Movement in working capital

	2002 £000	2001 £000
Decrease in debtors	1,209	556
Decrease in creditors	(6,260)	(4,199)
Increase in deferred income	2,397	2,622
Decrease in provisions	(919)	(727)
Movement in working capital	(3,573)	(1,748)

21 Analysis of cash flows

	2002 £000	2001 £000
Returns on investment and servicing of finance		
Interest received	556	510
Interest paid	—	(81)
Net cash inflow from returns on investment and servicing of finance	556	429
Financing		
Issue of ordinary share capital	79	81
Repayment of bank loans	—	(5,300)
Net cash inflow/(outflow) from financing	79	(5,219)

22 Analysis of changes in net cash

	£000
At 1 January 2002	15,293
Net cash movement	3,645
Exchange differences	(64)
At 31 December 2002	18,874

23 Pension scheme

The Group operates a number of defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the schemes and amounted to £915,640 (2001: £1,186,000).

Contributions amounting to £91,337 (2001: £99,000) were payable to the schemes at 31 December and are included in creditors.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Systems Union Group plc ('the Company') will be held at the Registered Office of the Company at Systems Union House, 1 Lakeside Road, Aerospace Centre, Farnborough, Hampshire GU14 6XP on 30 April 2003 at 12:30pm to transact the following business:

Ordinary business

1. To receive and consider the report of the directors and audited accounts of the Company for the year ended 31 December 2002 together with the Auditor's Report.
2. To re-elect Antony Charles Samuel Sweet who has been appointed since the last Annual General Meeting and who retires pursuant to Article 87.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a director.
3. To re-elect John Leyland Pemberton who retires by rotation pursuant to Article 92.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a director.
4. To re-appoint KPMG Audit Plc as auditor and to authorise the directors to fix their remuneration.

Special business

To consider and, if thought fit, to pass the following Resolution numbered 5 as an Ordinary Resolution:

5. That the directors be and they are hereby authorised, in substitution for any other authority previously conferred upon them, generally and unconditionally pursuant to Section 80 of the Companies Act 1985 ('the Act') to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,732,128 (being 33.3 per cent of the total nominal value of the shares in issue at the date of this notice) **provided that:**
   (i) this authority shall expire fifteen months from the date of this Resolution or at the Annual General Meeting of the Company to be held in 2004 if earlier (unless previously revoked or varied by the Company in general meeting); or
   (ii) the Company may, before such expiry, make an offer, agreement or arrangement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer, agreement or other arrangement as if the authority hereby conferred had not expired.

To consider and, if thought fit, to pass the following Resolutions numbered 6 and 7 as Special Resolutions:

6. That subject to the passing of Ordinary Resolution number 5 above, the directors be and are hereby empowered pursuant to Section 95(1) of the Act and in substitution for all existing powers, to allot equity securities (as defined in Section 94 of the Act), pursuant to the authority conferred by Ordinary Resolution number 5 above as if Section 89(1) of the Act did not apply to any such allotment **provided that:**
   (i) the allotment of equity securities in connection with any offer whether by way of rights, open offer (or otherwise) as securities, open for acceptance for a period fixed by the directors to the holders of ordinary shares and such other equity securities of the Company as the directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws, or the requirement of any recognised regulatory body or any stock exchange, in any territory; or
   (ii) any other allotment of equity securities up to an aggregate nominal value of £259,819 (being 5 per cent of the total nominal value of the Company's shares in issue as at the date of this notice).

Notice of Annual General Meeting

7. That the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163 of the Act) on the London Stock Exchange of ordinary shares of 5p each in the capital of the Company provided that:
   (i) the maximum number of ordinary shares, which are authorised to be purchased, shall be 10,400,000 representing approximately 10 per cent of the Company's issued ordinary share capital;
   (ii) the minimum price which may be paid for such shares is 5p per share (exclusive of expenses);
   (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than 5 per cent above the average of such share's middle market quotation as derived from the Alternative Investment Market of the London Stock Exchange (AIM) for the five business days immediately preceding the day on which the contract is entered into, being days on which AIM is open for the transaction of business.

The authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2004 or, if earlier, 15 months after the date of passing of this Resolution, unless such authority is renewed, varied or revoked prior to such time; and the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By Order of the Board

P G Larking
Secretary

24 March 2003

Registered Office

Systems Union House
1 Lakeside Road
Aerospace Centre
Farnborough
Hampshire GU14 6XP

Notes

1. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. A form of proxy is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.
3. To be effective the instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board, shall be deposited at the offices of the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the holding of the meeting.
4. Copies of all contracts of service under which directors are employed by the Company or any of its subsidiaries are available for inspection at the Company's Registered Office during business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the conclusion of the Annual General Meeting and will also be available for inspection at the place of the meeting from 15 minutes before it is held until its conclusion.

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