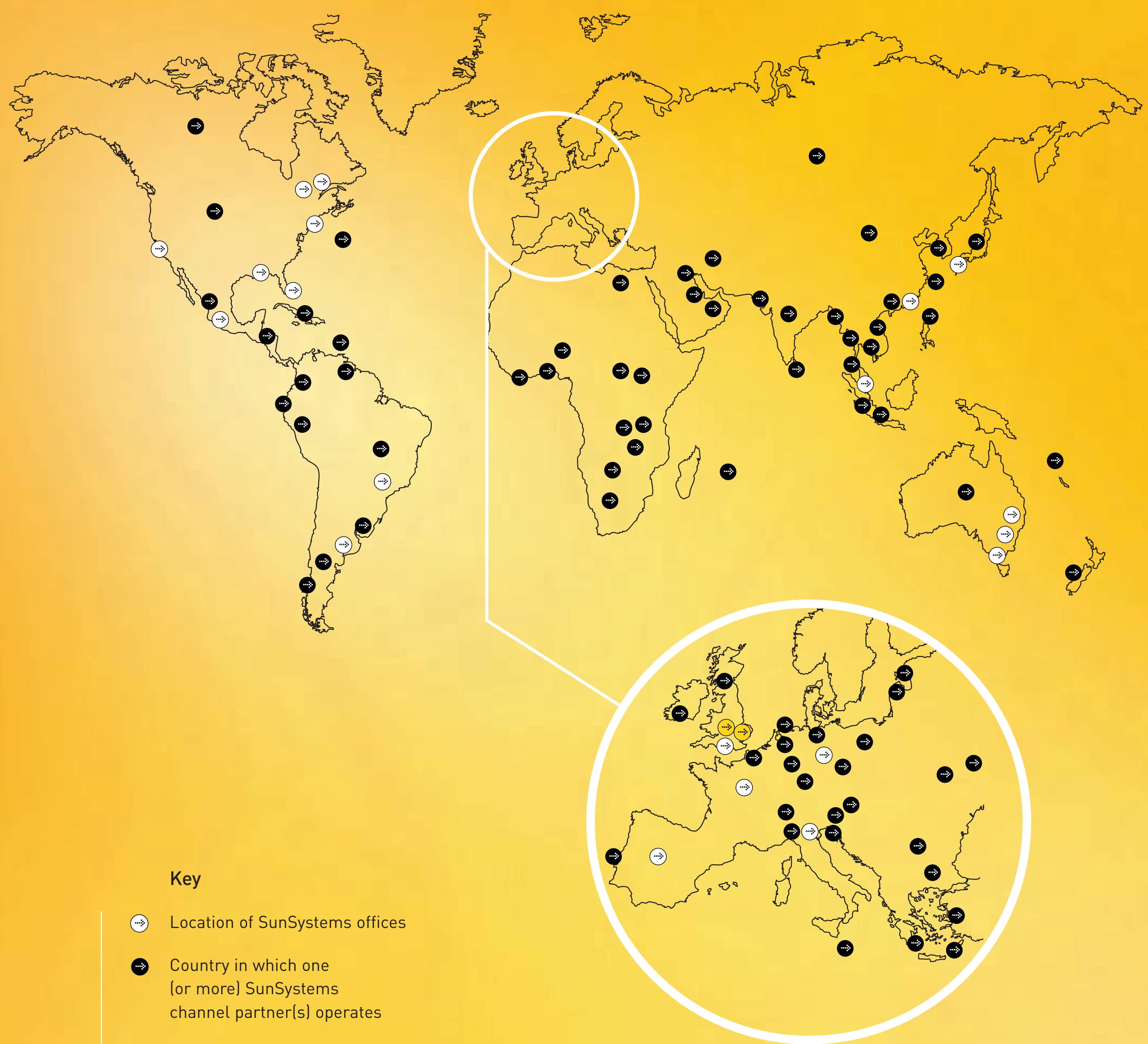
Systems Union Group plc
Annual Report 2001

Systems
Union

SunSystems is sold through 20 offices and 200 channel partners located in 76 countries.

GLOBAL REACH



Key

Location of SunSystems offices

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

Other Systems Union Group offices

SYSTEMS UNION GROUP plc
Company Number: 2735281

ANNUAL REPORT AND ACCOUNTS
Year ended 31 December 2001

SunSystems in EMEA (Europe, Middle East and Africa)
Offices in: Farnborough, Paris, Frankfurt, Madrid and Milan.
Channel partners in: Belgium, Botswana, Bulgaria, Croatia, Cyprus, Czech Republic, Egypt, Eire, France, Germany, Ghana, Greece, Hungary, Iran, 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
Offices in: Miami, Los Angeles, Houston, New York, Ottawa, Toronto, Buenos Aires, Mexico City and Sao Paulo.
Channel partners in: Argentina, Bermuda, Brazil, Canada, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Mexico, Peru, Trinidad, Uruguay, USA and Venezuela.

SunSystems in Asia-Pacific
Offices in: Hong Kong, Sydney, Canberra, Melbourne, Singapore and Tokyo.
Channel partners in: Australia, Cambodia, China, Fiji, Hong Kong, India, Indonesia, Japan, Malaysia, Myanmar, New Zealand, Pakistan, Philippines, Singapore, Sri Lanka, South Korea, Taiwan, Thailand and Vietnam.

Pegasus Software
Offices in: Kettering.
Value added resellers (VARs): predominantly in the UK, but also Dubai, Eire, Hong Kong, Singapore and South Africa.

Systems Union eBusiness Solutions
Offices in: Farnborough and Oxford.

CONTENTS

CHAIRMAN'S STATEMENT

I am delighted to report that the Group in its current form recorded its first year of profitability in 2001. This has been achieved by following a clear strategy of tight financial control and the continued investment in its products, services and support offerings to its global customer base. We ended the year with over £15 million in the bank, no borrowings and nine million shares held beneficially for the Group.

The launch of new SunSystems and Pegasus products is the result of our continued commitment to invest in research & development. SunSystems regularly competes with and wins against significant international competitors. The fact that many of the world's leading organisations are choosing our products over those of our rivals is confirmation of the need for organisations to implement their financial and management solutions on a more economical basis. With its global distribution network, SunSystems facilitates this requirement to many international and domestic companies. Pegasus is one of the largest providers of financial and business software to small & medium-sized enterprises (SMEs) in the UK and the leading brand in the SME modular market.

SunSystems is used in virtually every country in the world.

RESULTS

Earnings before interest, tax, depreciation and amortisation of intangibles (EBITDA) from operations was £5.1 million compared to a loss of £11.4 million in 2000. In addition, a profit on the disposal of properties of £1.6 million was achieved. This results in an aggregate EBITDA for the year of £6.7 million.

Turnover increased to £78.4 million from £51.0 million for ongoing activities. The net profit after tax was £2.0 million, compared to a loss of £106.6 million for the previous year. The adjusted post-tax profit before amortisation of goodwill was £5.6 million compared to a loss of £90.2 million.

Adjusted earnings per share was 3.9p. This compared to a loss per share of (8.4p) in 2000. The net funds position improved by £11.5 million to £15.3 million after the repayment of all borrowings, which totalled £5.3 million.

The Board is unable to recommend a dividend due to the fact that there are no distributable reserves.

DIRECTORS AND EMPLOYEES

In September, James Glicker resigned as a non-executive director to concentrate on his other business activities in the United States. We thank him for his services to the Group.

The Board is supported by a very capable and experienced management team who meet regularly and work closely with the chief executive officer.

At 31 December 2001, the Group employed 781 people (2000: 805). Transforming the Group into profit has been a major achievement and is the direct result of the dedication, loyalty and contribution made by all the Group's employees. The Board is very appreciative of the outstanding efforts of the management and staff during the year.

OUTLOOK AND CURRENT TRADING

We look forward to 2002 being a year of further improvement to sales and productivity levels. We expect to increase business from our existing customer base and from our competitors. We aim to meet customers' increasing expectations by delivering cost-effective solutions on time.

Effective sales and marketing, together with continued development of our products and strong cash management, are key priorities for the Group. The Group is financially robust with a significant, international market presence. We have the resources to drive the growth strategy forward and the Board is confident of the Group's future.

Bob Morton
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

The year was one of further consolidation and continued rebuilding of the Group. There were significant customer wins, major product launches and focused sales and marketing initiatives. All of this resulted in the Group becoming profitable.

The highlights of the year were:

- Return to profits for Systems Union Holdings Limited and Pegasus Software Limited
- Adjusted basic earnings per share of 3.9p from a loss per share of (8.4p) in 2000
- Basic earnings per share improved to 2.0p from a loss per share of (125.3p) in 2000
- Greatly improved cash position
- Disposal of surplus properties at a substantial profit
- Sales of SunSystems 5 to major customers, notably Pfizer Inc and the Seventh-day Adventist Church
- Successful restructuring in The Americas
- New products released from research & development on time
- Productivity benefits through launch of intensive sales training programme
- Low staff turnover; stabilised workforce
- World exclusivity rights secured for SunSystems Vision

The return to profitability of Systems Union Holdings Limited and Pegasus Software Limited demonstrated the inherent strengths of the underlying businesses. Strong fiscal management and progressive corporate objectives should enable the Group to achieve even better results in 2002. Both companies have strong brand awareness and reputations in their markets for their financial and business management software solutions. The addition of further products and services around this core competence will strengthen our position as a world-class business with a global distribution network. The cash position of over £15 million at the year-end together with nine million shares held beneficially for the Group ensures that the Group has the funding to achieve its agenda.

600 oil & gas sites around the world use SunSystems software.

FINANCIAL REVIEW

2001 was a year of consolidation for the Group. There were no acquisitions or disposals; this enabled management to focus on delivering strong profits growth from the Group's two established brands of SunSystems and Pegasus (Opera). The Group reported an EDITDA from operations of £5.1 million (2000: LBITDA of £11.4 million) on sales of £78.4 million (2000: £53.4 million). The results for the year include, for the first time, a full year's contribution from both Systems Union Holdings and Pegasus Software following their acquisition in 2000. Comparability with the prior year is therefore not directly relevant. However, it is clear that, following the post-acquisition restructuring programmes executed in 2000, the results of both companies have significantly improved from loss making positions.

The operating results for 2001 were encouraging. In addition the Group reported a profit on disposal of surplus freehold properties (Dogmersfield Park and Ruislip) of £1.6 million.

Expenditure on research & development in 2001 totalled £12.1 million (2000: £12.5 million). This reflects the ongoing commitment in the SunSystems and Opera product ranges. Following the rationalisation of the Group's property portfolio, the depreciation charge has dropped to £1.4 million from £2.2 million. The amortisation of intangibles of £3.6 million comprises the amortisation of the goodwill capitalised on the acquisition of Systems Union Holdings and Pegasus Software. There is no impairment charge in 2001.

The low tax rate is the result of using corporate tax losses brought forward. At 31 December 2001 corporate tax losses carried forward are estimated to be in excess of £20 million worldwide. Capital losses in the United Kingdom are estimated to be in excess of £65 million. A profit of £2.0 million was transferred to reserves (2000: loss £106.6 million).

The Group has no borrowings and continues to hold an interest in nine million of its own shares. This investment is carried in the accounts at 70 pence per share (£6.3 million) and is now classified as a fixed asset investment. Net current assets increased by £5.0 million to £16.1 million after adjusting for the re-classification of the aforementioned shares.

Net funds increased by £11.5 million. The disposal of the surplus freehold properties generated £8.9 million from which £5.3 million of secured debt was repaid. A further £2.6 million of cash was generated from trading activities after capital expenditure. Particular attention has been given to the management of working capital resulting in a marked reduction in debtor days.

case study

OIL & GAS – AMERADA HESS CORPORATION

Headquartered in New York, Amerada Hess Corporation is an integrated oil & gas company involved in worldwide exploration and production of crude oil and natural gas. Its International business is based in London, with operations in Azerbaijan, Algeria, Brazil, Gabon, Indonesia, Malaysia, Thailand and Vietnam.

The International Business Unit chose SunSystems because it needed a very flexible financial management package. It is common for there to be three streams of reporting: to internal management, to joint venture partners and to the respective host governments and their agencies. In addition, the software must cope with a vast amount of local variation, from languages and currencies to regulatory demands, fiscal regimes and statutory accounting requirements.

"One of the challenges we face is having to set up an accounting system quickly in a new part of the world where the growth of that business is rapid," explained Paul Mehigan, head of Financial Systems for the International Business of Amerada Hess.

"SunSystems gives us the flexibility we need, with its multi-currency, multi-language and multiple databases that allow a variety of different reporting. We also find that SunSystems is compatible with other software within our organisation, so tasks like consolidating results from our overseas operations are straightforward. We have never been held back in what we want to achieve."

60 of the FTSE 100 use SunSystems.

SUMMARY OF RESULTS

	2001 £000	2000 £000
Turnover		
– EMEA	**37,417**	22,136
– The Americas	**16,173**	10,167
– Asia-Pacific	**16,482**	11,282
– Pegasus Software	**7,481**	7,062
– Systems Union eBusiness Solutions	**832**	349
Total continuing operations	**78,385**	50,996
– Discontinued operations	**-**	2,782
Total turnover	**78,385**	53,778
EBITDA/(LBITDA)		
Continuing operations before R&D	**17,201**	7,262
R&D	**(12,052)**	(12,517)
Continuing operations after R&D	**5,149**	(5,255)
Discontinued operations	**-**	(6,168)
EBITDA/(LBITDA)		
– Operations	**5,149**	(11,423)
– Disposal of properties	**1,586**	-
TOTAL EBITDA/(LBITDA)	**6,735**	(11,423)
Depreciation	**(1,385)**	(2,193)
Amortisation/Impairment of intangibles	**(3,590)**	(16,460)
Operating Profit/Loss	**1,760**	(30,076)
Reorganisation costs, profit and loss on disposal of investments and discontinued activities	-	(76,541)
Net interest receivable	**429**	693
Profit/ (loss) on ordinary activities before tax	**2,189**	(105,924)
Taxation on ordinary activities	**(146)**	(705)
Profit/ (loss) for the financial year	**2,043**	(106,629)
Earnings/ (loss) per share*		
Basic (adjusted)	**3.9p**	(8.4)p
Diluted (adjusted)	**3.8p**	(8.4)p

* Adjusted to exclude non-operating gains and losses and amortisation of goodwill.

OPERATIONAL REVIEW

Systems Union Holdings Limited

SunSystems is the brand name for software solutions developed and distributed by Systems Union Holdings Limited. It is a leading financial and business management software solution provider for international and domestic organisations, worldwide. The strategy of building out from its core competencies in real-time financial intelligence applications and a move away from being a pure product vendor to becoming a solutions provider is central to our objectives.

SunSystems customers are predominantly international businesses who require comprehensive business solutions with low total cost of ownership and low risk. Our offerings are based on a combination of excellent products backed by proven services expertise and a strong track record in delivering global business solutions. By focusing on five key markets — hospitality, oil & gas, not-for-profit, financial services and global organisations — we have been able to meet special needs and build a strong and international market presence.

SunSystems has three BASDA EMU Accreditation Level 2 awards related to euro compliance.

The product offerings are within the Enterprise Resource Planning (ERP) market. The leading industry analyst, Gartner Group, considers the recent evolved form, ERPII, to be the next step for business management applications. ERPII includes key elements such as collaborative business, domain-focused expertise and web-enabled architecture. SunSystems has been positioned as a Challenger in Gartner's ERPII Magic Quadrant for the Services sector and by IDC in Asia-Pacific as a top ten Enterprise Resource Management vendor.

In October 2001, Gartner Group listed SunSystems as a Challenger in its worldwide Service-Intensive Magic Quadrant for the mid-market.

In 2001, we continued to develop products within our core competencies of financial and business management solutions. This includes major new releases of SunSystems 5. We also launched a new XML-based product called SunSystems Connect, which allows SunSystems software to interface with other business applications. Our first Java-based product – i2i Purchase Requisitioning for SunSystems 4 – was launched and we continue to develop applications based on Java technology in 2002 for SunSystems 4 and SunSystems 5.

Our SunSystems Analytics portfolio was extended with the launch of SunSystems Report Server, a web-based information delivery product, and there were additions to the SunSystems Vision reporting and enquiry family. Financial analytic applications is a major growth area and we will continue to pursue this market opportunity in 2002.

By providing broader solutions based on an expanded range of products and services, we will seek to increase our revenue per customer. This includes SunSystems Global Solutions, which was established in late 2001 to drive this growth. During 2002 we will be preparing the organisation for growth by improving infrastructure, processes and productivity. We will extend our business model to incorporate key global OEM relationships in order to leverage the SunSystems product set.

Review of activities

Approximately 50 per cent of SunSystems' revenue is generated within EMEA, of which the largest market is the UK. The remainder is divided equally between Asia-Pacific and The Americas. Licence sales account for 41 per cent of worldwide revenues. Recurring maintenance and support represents 34 per cent and the remaining 25 per cent of income is derived from consulting.

EMEA (Europe, Middle East and Africa)

SunSystems' EMEA region, based with the Group head office in Farnborough, UK comprises: over 7,500 customer sites in 108 countries; direct sales, support and service operations in the United Kingdom, France, Germany and Spain; a joint venture in Italy; a network of 62 channel partners; and 260 staff.

A primary management focus for 2001 was on improving productivity. New intensive training was introduced for all sales staff and we invested heavily in creating a large repository of Computer Based Training materials to enable our own consultants, pre- and post-sales support staff and channel partners' staff to learn the fundamentals of SunSystems products in their own time.

As a result, sales of licences and recurring maintenance income showed considerable improvement. The utilisation rate for implementation consultants was high and the customer support workload was absorbed without increase in staff.

There were over 500 new installations at customer sites during the year. These included Guinness, Equant, UK Ministry of Defence, BP, Pfizer, Le Meridien Hotels, Standard Chartered Bank, Misys and Key Equipment Finance.

In a market where major UK-controlled competitors failed or struggled for survival, SunSystems proved conclusively that we can compete against, and win new business from, major global competitors.

case study

HOSPITALITY – HILTON INTERNATIONAL

Hilton International is the largest division of UK-headquartered Hilton Group plc. It holds the rights to the Hilton name outside the USA and currently operates 379 hotels in almost 70 countries worldwide.

Hilton International Asia-Pacific has been using SunSystems since April 1998 in the majority of its hotels across the region. An upgrade project, managed from Sydney, Australia, is aimed at substantially improving the effectiveness of the support functions within the hotels, including finance, purchasing and inventory, and link with the financial management information systems (FMIS).

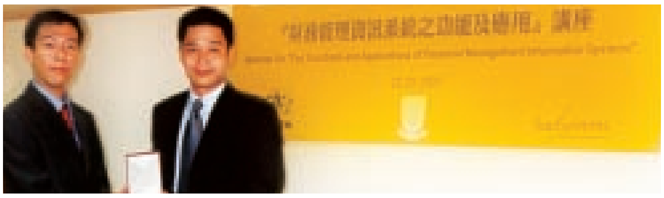
In 2001, Hilton International standardised its financial operations in The Americas on SunSystems. It is being implemented in a centralised environment by 25 hotels in the United States, Latin America, the Caribbean and Canada.

SunSystems was also chosen due to its ability to deliver corporate level control and standardisation without preventing regional offices from having the modification capabilities for local needs and purposes.

"Hilton International pre-determined a number of productivity and cost savings benefits related to building a centralised accounting environment," explained David Kelley, vice president for Information Technology at Hilton International in the Americas. "Despite talking to, and trying to work with, many large vendors, we found that SunSystems had the solution and team best able to do the job. The core elements of the SunSystems product, along with its advanced features related to multi-language, multi-currency and real-time reporting features, proved that SunSystems could deliver the stability and customisable functionality needed."

SunSystems is also used in Hilton hotels in the Middle East (which fall within Hilton's Asia-Pacific region) and in north, south and central Africa. These, together with the Americas and Asia-Pacific installations, emphasise the global reach of the SunSystems software solutions.

The three most used languages in SunSystems are English, French and Simplified Chinese.



Asia-Pacific

SunSystems has extensive operations throughout Asia-Pacific with over 6,800 customers in the region.

Despite the economic conditions, nearly 400 new customers selected SunSystems in the region. SunSystems remains in the unique position of having full multi-byte and double-byte support for Simplified Chinese, Complex Chinese, Thai, Korean, Bahasa Malay, Bahasa Indonesian and Vietnamese language versions. This means our products and services can be closely integrated with the needs of our customers thereby enabling them to focus on the centralisation of their business systems.

Our customers and over 70 channel partners are serviced from our four main centres in Hong Kong, Sydney, Singapore and Tokyo. A new sales office and R&D centre is currently under consideration for Shanghai, China. Staffing levels within the region averaged 145 people during 2001.

During the year, we launched a major accounts team in Asia-Pacific targeting large enterprise deals. These are pan-Asia-Pacific and are focused on transactions with higher average order values. Working in conjunction with MICROS-Fidelio, a world leader in front-office systems for the hospitality sector, SunSystems was installed in over 70 hotels in the region. Strong growth is expected in this sector especially in mainland China due to the Olympics and the general economic expansion expected as a result of the new World Trade Organisation membership.

Mainland China continues to be an intense area of focus and with over 2,350 customers, we are well positioned to capture further market share in 2002. SunSystems is sold and supported in Shanghai, Beijing, Cheng Du, Dalian, Guangzhou, Nanjing, Shenzhen and Wuhan.

The Americas

The Group has over 1,600 customer sites in 19 countries within the region. With operations in Canada, United States and Latin America, the customer base is supported by a network of 30 channel partners and 90 staff.

In preparation for a major sales and marketing focus, a restructuring plan was implemented in May. This included a reduction of staff and the relocation of the regional head office to Miami. These measures have improved communications and enhanced the profitability in the region. Sales increased in the second half of the year.

The region focused its sales activities on the key vertical markets and successfully implemented solutions for major customers including: Pro-Assurance, Mutual Risk Management Bermuda, MAPFRE Insurance, Pfizer, Syn-X Pharma, World Vision, Seventh-day Adventist Church, Triton, MI Drilling, Hilton International and Sheraton.

We have seen encouraging growth in the region following the introduction of SunSystems 5.

case study

NOT-FOR-PROFIT – CANADIAN UNIVERSITY SERVICE OVERSEAS

Since it was founded 40 years ago, CUSO has sent over 12,000 Canadian volunteers overseas to work with nearly 90 local partners and field staff in developing countries. Its head office (or Secretariat) is in Ottawa, Canada with regional offices for Americas/Caribbean, Africa and Asia-Pacific.

"Before we implemented SunSystems, CUSO had a custom-designed accounting system that was very complex and difficult to operate," explained CUSO's director of finance, Keith Anatol. "Few people really understood how to use it. As an international organisation, we had to receive reports from overseas and then consolidate the numbers in Canada. This process would sometimes take months, which impacted on our business efficiencies dramatically."

In particular, the multi-currency capabilities of SunSystems were important. "We required a system that was easy to use and, because of our overseas operations, we also wanted one that could facilitate our regular reporting. SunSystems offered all of these. And being a Non-Governmental Organisation (NGO), price is extremely important."

CUSO installed SunSystems in all its regional offices so that financial information could be channelled easily between users. The results became evident almost immediately. Reports that took months to complete can now be compiled in 10 days.

CUSO has since capitalised on its in-house expertise by becoming a channel partner of SunSystems to help teach other NGOs about the system's capabilities. "It makes sense for us because we really understand SunSystems – we were one of the first to adopt it – and we understand the needs of other NGOs and know how they operate," concludes Anatol.

SunSystems came top in the Enterprise Applications 2001 survey, based on user satisfaction conducted by CFO magazine in Australia.

Research & development

The R&D team of 175 people met its major objectives on time and within budget. This included two major releases delivered in June and December. By the end of the year, SunSystems 5 had 20 'live' customers with another 50 in the controlled release programme.

Purchasing, Fixed Assets, Tax Reporting and Business Rules were added to SunSystems 5 during the year, together with major projects for Seventh-day Adventist Church and Pfizer. SunSystems 5 is now operable at Systems Union's headquarters in Farnborough, UK. Customers sites are being upgraded to the latest version, SunSystems 5.1.3, on a regular basis.

Four service packs were released during the year together with the first language versions: French, Spanish, German and American-English. Further languages will be released during the first half of 2002 including Italian, simplified and traditional Chinese, Japanese and Brazilian Portuguese.

SunSystems 5 is now supported on an array of Microsoft operating systems, including the newly-released Windows XP. In early 2002, the first release of SunSystems 5 Financials running on the Oracle database will be released, initially, on Windows NT and soon after on UNIX. The remainder of the product will be available on an Oracle database by mid-2002.

SunSystems Connect and Transfer Desks were released in October 2001. SunSystems Connect is an XML gateway written in Java, used to integrate SunSystems with third party applications and is part of our collaborative strategy. This has been used to integrate with SunSystems PSA powered by SharpOWL. Transfer Desks is a user interface which uses SunSystems Connect to drive the extraction, manipulation and importing of data to and from SunSystems.

Additional investment was made in SunSystems 4 by the introduction of SunSystems i2i Foundation module and SunSystems i2i Purchase Requisitioning. The Foundation module allows customers to make transaction enquiries over a corporate intranet or the Internet. SunSystems i2i Purchase Requisitioning is a completely new product using innovative leading edge technology such as Java 2 Enterprise Edition (J2EE) and Enterprise JavaBeans (EJB).

→ Pegasus Software Limited

Based in Kettering, UK, and employing 133 people, Pegasus Software provides SMEs with the finance and business systems they need to allow them to concentrate on the core of their business, their employee, supplier and customer relationships.

Sales are made through a distribution network of 400 value added resellers, primarily in the UK, working with the company's 35,000 customers. Approximately 50 per cent of total income is recurring with over 90 per cent of all Opera users having maintenance contracts.

Opera II was launched in late 2000 and is now Pegasus' flagship product. Typically, companies using Opera II have between 10 and 100 employees.

case study

PEGASUS – THE EDEN PROJECT

The Eden Project in Cornwall, south west England is one of the UK's top visitor attractions. The Project's trademark 'Biomes' allow visitors to experience the plant-life and climates of the rainforests, Mediterranean, South Africa and California, all in a corner of south west England.

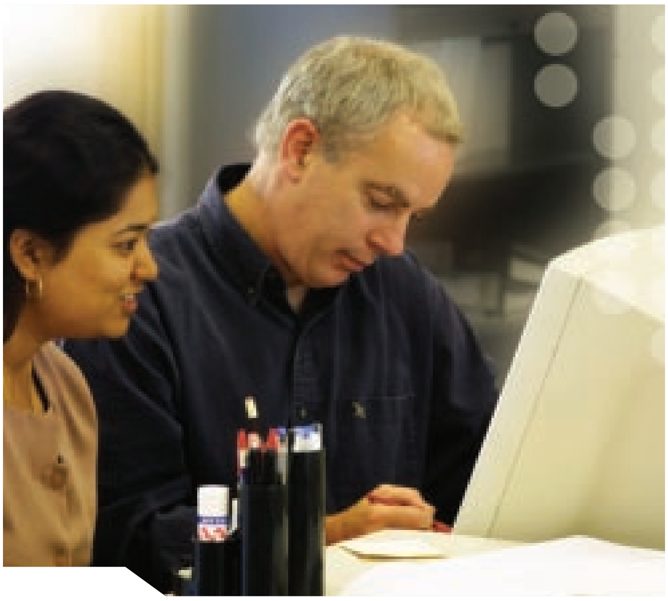
In November 2001, its finance team won the prestigious *Accountancy Age* Finance Team of the Year award; well deserved recognition of their success as a profitable charitable organisation.

With up to 14,000 visitors per day, a flexible infrastructure able to cope with large volumes of transactions is essential, which is why Pegasus Opera is at the Project's financial heart. A 50-user Opera system was purchased through Pegasus accredited reseller, A C Systems.

Marketing director David Meneer explained: "We needed to be confident that the back-office system behind the Eden Project could support this vast volume of transactions and keep track of our considerable stock movements. At the end of the day, what every company needs is flexibility and control and this is what Opera delivers. It gives us control, handling the retail, ticket and catering elements of our business and is flexible enough to enable us to link to our systems."

The electronic point of sale (EPOS) system at the Eden Project, for example, links into Opera, updating the sales ledger and stock module. The Eden Project's vision is constantly evolving and its popularity looks set to continue well into the future. It is now considering eCommerce so visitors can purchase tickets online. When they do, Pegasus Opera will be well placed to fulfil this need too.

According to IDC, Systems Union is one of the top ten vendors in the Enterprise Resource Management applications market in Asia-Pacific.



Capital Gold is designed for smaller organisations and as such has been designed with ease of use in mind. Typically, companies using Capital Gold have between one and 15 employees.

The company is a leading supplier of payroll software systems that includes the facility to submit end-of-year returns over the Internet to the Inland Revenue.

Pegasus returned to profitability in 2001. This was achieved from focused sales and marketing activities and firm cost controls. The company secured orders for Opera II from 800 organisations, including Greyhound Racing Association, Belfast Opera House, the Eden Project and the (English) Football League.

Pegasus is an established software house with good brand recognition in the UK. With Opera II, the company is well placed for growth in 2002.

Systems Union eBusiness Solutions Limited

Systems Union eBusiness Solutions (SUeBS) is based near Oxford, UK, and provides consultancy and implementation of web systems and website hosting services.

400 value added resellers in the UK sell Pegasus software products.

The average new business order value for hosting showed considerable improvement and, by year-end, the company had 136 hosting contracts of which 89 were from new customers. Hosting is outsourced to a datacentre in London's docklands, which includes security protection using SUeBS-developed monitoring software, out-of-hours call centre and full recovery capabilities.

The average new business order value for development work on web-systems increased significantly. Major wins included Nokia UK and Carlton Hotels. SUeBS also worked closely with SunSystems and Pegasus to enhance their eCommerce Gateway offerings.

STAFF

The Group's share option scheme now extends to over 75 per cent of all employees giving staff a major interest in the future prosperity of the Group, as well as performance-related incentives to ensure that focused effort is properly rewarded.

I would like to take this opportunity to thank the worldwide Systems Union team for their hard work, support and dedication throughout the year.

THE FUTURE

The achievements in 2001 were significant. We believe that the full value of the Group's global distribution network, excellent products, service and support offerings, and the loyalty of its customers, channel partners and staff have yet to be fully realised.

I am delighted that we have been able to turn the Group around into profitability. We plan to improve upon this in 2002.

Paul Coleman
Chief Executive Officer

case study

FINANCIAL SERVICES – CHINA LIFE CMG

Launched in June 2000, China Life CMG Life Assurance Company Ltd – based in Shanghai, People's Republic of China – is a joint venture between the biggest financial companies in China and Australia: China Life Insurance Company and the Commonwealth Bank of Australia.

The comprehensive analysis features were important in its decision to purchase SunSystems. "An analysis code can be assigned to every department and product," said China Life CMG's finance director. "The code can be up to 15 characters long. Such a detailed code makes our accounts clear, and can accurately reflect the operation of every department and product."

The software also helped China Life CMG to better manage expenditures and budget. "Using the powerful budget control function of SunSystems software," China Life CMG explained, "We have established a budget control account for every department. This account can be flexibly compared with the real account, and we can monitor and control the budget in real time."

China Life CMG believes it is right to be confident in SunSystems. "It's clear that Systems Union recognises China as an important market," concluded China Life CMG's finance director. "I believe it will continue to produce new products and provide even more excellent financial system management software."

DIRECTORS' REPORT

The directors present their Annual Report together with the Audited Consolidated Financial Statements of the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company'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 the Systems Union eBusiness Solutions company.

A review of the Group's operations is included within the Chief Executive Officer's Review on pages 3 –14.

FINANCIAL RESULTS AND DIVIDENDS

Details of the results for the year ended 31 December 2001 are set out on pages 27 to 31 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 £78,385,000 (2000: £53,778,000) and profit after taxation was £2,043,000 (2000: loss £106,629,000).

No interim dividend has been paid and the directors recommend that no final dividend be paid for the year (2000: nil).

PRODUCT DEVELOPMENT

Total gross expenditure on research & development was £12,052,000 (2000: £12,517,000). Costs are written off to the profit & loss account in the period in which they are incurred. 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.

Pegasus has over 35,000 customers.

DIRECTORS AND THEIR INTERESTS

The directors who have served during the year are:

A L R Morton
P J Coleman
J L Pemberton
J G Glicker (resigned 6 September 2001)

Bob Morton (60) 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 Trust plc.

Paul Coleman (50) 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 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.

John Pemberton (53) 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.

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 2001	At 1 January 2001
	5p Ordinary Shares	5p Ordinary Shares
A L R Morton	8,835,520	8,385,520
P J Coleman	100,000	100,000
J L Pemberton	4,846,308	5,646,308

P J Coleman retires from the Board in accordance with the Company's Articles of Association and offers himself 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% or more of the Company's shares.

	Number of Shares	Percentage of Share Capital
Henderson Global Investors Limited	11,619,433	11.20
M&G Investment Management Limited	10,303,382	9.96
Schroder Investment Management Limited	7,656,264	7.38
Fuji Investment Management Company (Europe) Limited	6,017,000	5.80
JP Morgan Fleming Asset Management (UK) Limited	5,011,834	4.84

The Company has an interest in nine million shares which are held in trust for the benefit of the Group. This holding represents 8.68% of the current issued share capital of the Company.

Worldwide market for Enterprise Application Software will grow from £7 billion ($10bn) in 1999 to over £22.5 billion ($32bn) by 2005 according to Dataquest, 2001.

EMPLOYEES

Every effort is made to keep all staff informed and involved in the operations and progress of the Company. This is achieved through the use of electronic communications and staff briefings. It is the Company'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 Company'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 2001 was 45 (31 December 2000: 58 days).

DONATIONS
There were no political donations during the year. Donations of a charitable nature amounted to £2,922 (2000: £16,296).

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 12.30 p.m. on Tuesday 23 April 2002. The notice of the meeting, detailing the Ordinary and Special Business to be conducted is set out on pages 49 – 50 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
18 March 2002

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

In addition to complying with the provisions of the Combined Code, as disclosed in the Company's Corporate Governance statements, the Board has applied the principles of Good Governance relating to remuneration of directors and senior management as described below.

POLICY ON REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration of the executive directors is authorised by the Remuneration Committee. Terms of appointment of non-executive directors are subject to Board approval and within limits set by the Articles of Association of the Company. 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. The objective of the policy is achieved through the following:

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 chief executive officer. Certain other senior staff have bonus arrangements, which are dependent on the performance of the Company and the individual.

Share options

The Company operates an Inland Revenue approved share option scheme, which also facilitates the grant of super options and unapproved 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. Further details of the Share Option schemes, including details of options outstanding are set out in Note 21 to the Accounts.

Pensions

The Company makes a contribution of 10 per cent of the basic salary to a personal pension scheme on behalf of the chief executive officer. The Company makes defined contributions to personal pension plans for other staff within the Group. Company contributions in some Group companies are dependent upon participating staff making a personal contribution.

A quarter of the
Fortune 500 use SunSystems.

DIRECTORS' REMUNERATION

	Salary and fees £	Performance bonus £	Benefits in kind £	Pension contributions £	Total 2001 £	Total 2000 £
A L R Morton*	30,000	Nil	Nil	Nil	**30,000**	29,000
P J Coleman	190,000	223,950	19,075	19,000	**452,025**	159,236
J L Pemberton*	71,000	Nil	356	Nil	**71,356**	129,180
J G Glicker*	9,000	Nil	Nil	Nil	**9,000**	18,000
	300,000	223,950	19,431	19,000	**562,381**	335,416

* Non-executive

DIRECTORS' SERVICE AGREEMENTS

The chief executive officer has a service agreement with the Company, capable of termination on 12 months notice. A L R Morton has a letter of appointment, which is capable of termination by the Company on 6 months notice. J L Pemberton has a fixed term agreement until 30 April 2002, whereupon it is capable of being extended should the Company and Mr Pemberton so agree.

DIRECTORS' SHARE OPTIONS

P J Coleman has options granted as super options under the Systems Union Group Employee Share Option Scheme (1999). The conditions of the option grant are as follows:

2,000,000 options granted on 13 December 2000 at 61.5 pence. Options shall vest in tranches of 500,000 when the share price of the Company reaches the targets, as set out below, for not less than 30 consecutive days in any period following the date of grant. As at 31 December 2001 no options have vested.

Target Share Price	Number of Options
£1.00	500,000
£1.50	500,000
£2.00	500,000
£2.50	500,000

Options are capable of exercise at the rate of 500,000 per half year, during a period commencing 13 December 2003 until 12 December 2010.

At 18 March 2002 no other directors who served during the year have options, which are capable of exercise at a future date.

CORPORATE GOVERNANCE

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

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').

BOARD AND MANAGEMENT REPORTING

The Board currently comprises the chief executive officer, a 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 their decision, in accordance with the provisions of the Combined Code.

Each operating company and region 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 company performance (by region) and an analysis against budget revenue and expenditure. Board papers are circulated to all members of the Board in advance of their meetings to ensure that members of the Board are given the opportunity to consider Board papers prior to discussion.

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 19 – 20.

The committee makes its decisions following consultation with the chief executive officer and has access to external professional advice if required.

15 of the world's largest 16 corporations use SunSystems.

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 Company'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 information

Detailed annual budgets are prepared for each operating company (by region) and for the Group. These budgets are reviewed and agreed by the Board and actual performance is reported against these budgets on a regular basis.

Company management

The chief executive officer chairs a global operating 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 management 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 are documented and kept under constant review. Systems Union Holdings Limited holds ISO9001/TickIT accreditation.

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.

DIALOGUE WITH INSTITUTIONAL SHAREHOLDERS

The directors of the Group, 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 27 – 48.

KPMG Audit Plc
Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdon

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The directors are responsible for preparing the Directors' Report and, as described on page 18, 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 2001 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
18 March 2002
Chartered Accountants
Registered Auditor

DIRECTORS AND ADVISERS

Directors	A L R Morton FCA *(Non-executive Chairman)* P J Coleman FCA *(Chief Executive Officer)* J L Pemberton *(Non-executive Director)*
Company Secretary	P G Larking FCIS
Registered Office	Systems Union House 1 Lakeside Road Aerospace Centre Farnborough Hampshire GU14 6XP Registered in England and Wales: Number 2735281
Nominated Adviser and Broker	KBC Peel Hunt Ltd 62 Threadneedle Street London EC2R 8HP
Auditor	KPMG Audit Plc Arlington Business Park Theale Reading RG7 4SD
Solicitors	Burges Salmon Narrow Quay House Narrow Quay Bristol BS1 4AH
Bankers	Barclays Bank plc 54 Lombard Street London EC3V 9EX
Registrars	Capita IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU

SYSTEMS UNION GROUP plc

Annual Report and Accounts
31 December 2001

CONSOLIDATED PROFIT & LOSS ACCOUNT

for the year ended 31 December 2001

	Note	2001 £000	2000 £000
Turnover			
Continuing operations		**78,385**	50,996
Discontinued operations		**–**	2,782
Total Turnover	2	**78,385**	53,778
Cost of operations		**(61,184)**	(52,684)
EBITDA before research & development		**17,201**	1,094
Research & development		**(12,052)**	(12,517)
EBITDA/LBITDA			
Operations		**5,149**	(11,423)
Disposal of properties		**1,586**	-
TOTAL EBITDA/LBITDA		**6,735**	(11,423)
Depreciation		**(1,385)**	(2,193)
Amortisation/impairment of intangibles		**(3,590)**	(16,460)
Operating profit/(loss)			
Continuing operations		**1,760**	(23,740)
Discontinued operations		**-**	(6,336)
Total operating profit/(loss)		**1,760**	(30,076)
Net interest receivable	3	**429**	693
Profit on disposal of investments	4	**-**	2,109
Reorganisation costs	5	**-**	(7,165)
Loss on sale of discontinued operations	6	**-**	(71,485)
Profit/(loss) on ordinary activities before taxation		**2,189**	(105,924)
Taxation on profit/(loss) on ordinary activities	10	**(146)**	(705)
Profit/(loss) for the financial year		**2,043**	(106,629)
Earnings/(loss) per share	11		
- basic		**2.0p**	(125.3)p
- diluted		**1.9p**	(125.3)p
Adjusted earnings/(loss) per share	11		
- basic		**3.9p**	(8.4)p
- diluted		**3.8p**	(8.4)p

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

CONSOLIDATED BALANCE SHEET

as at 31 December 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Fixed assets					
Intangible assets	12		**65,653**		68,800
Tangible assets	13		**4,469**		4,716
Investments	14		**6,300**		-
			76,422		73,516
Current assets					
Debtors	15	**18,581**		19,106	
Properties held for sale		**-**		7,302	
Other current assets	16	**-**		6,300	
Cash at bank and in hand		**15,293**		9,135	
		33,874		41,843	
Creditors: amounts falling due within one year	17	**(17,745)**		(24,390)	
Net current assets			**16,129**		17,453
Total assets less current liabilities			**92,551**		90,969
Creditors: amounts falling due after more than one year	18		**(826)**		(3,173)
Provisions for liabilities and charges	19		**(2,204)**		(2,584)
Deferred income			**(13,178)**		(10,464)
Net assets			**76,343**		74,748
Capital and reserves					
Called up share capital	21		**5,172**		5,158
Share premium account	22		**35,963**		35,896
Merger reserve	22		**54,118**		57,662
Warrant reserve	22		**1,476**		1,892
Profit and loss account	22		**(20,386)**		(25,860)
Equity shareholders' funds			**76,343**		74,748

These financial statements were approved by the Board of Directors on 18 March 2002 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

COMPANY BALANCE SHEET
at 31 December 2001

	Note	2001 £000	2001 £000	2000 £000	2000 £000
Fixed Assets					
Tangible assets	13		**390**		398
Investments	14		**60,752**		54,252
			61,142		54,650
Current assets					
Debtors	15	**10,452**		16,589	
Properties held for sale		**-**		1,022	
Other current assets	16	**-**		6,300	
Cash at bank and in hand		**13,463**		7,040	
		23,915		30,951	
Creditors: amounts falling due within one year	17	**(11,144)**		(10,853)	
Net current assets			**12,771**		20,098
Net assets			**73,913**		74,748
Capital and reserves					
Called up share capital	21		**5,172**		5,158
Share premium account	22		**35,963**		35,896
Merger reserve	22		**57,662**		57,662
Warrant reserve	22		**1,476**		1,892
Profit and loss account	22		**(26,360)**		(25,860)
Equity shareholders' funds			**73,913**		74,748

These financial statements were approved by the Board of Directors on 18 March 2002 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2001

Analysis of net funds	1 January 2001 £000	Cash flows £000	Exchange Movement £000	31 December 2001 £000
Net cash at bank and in hand	5,135	10,144	14	**15,293**
Short term deposits	4,000	(4,000)	-	**-**
Cash and liquid securities	9,135	6,144	14	**15,293**
Secured bank debt	(5,300)	5,300	-	**-**
Total net funds	3,835	11,444	14	**15,293**

Movement in net funds	2001 £000	2000 £000
Increase in cash in the year	**10,158**	5,051
Cash flow from change in debt	**5,300**	2,354
Cash inflow from decrease in liquid resources	**(4,000)**	(15,028)
Change in net funds resulting from cash flows	**11,458**	(7,623)
Loans acquired with subsidiary undertakings	**-**	(7,600)
Movement in net funds	**11,458**	(15,223)
Net funds at 1 January 2001	**3,835**	19,058
Net funds at 31 December 2001	**15,293**	3,835

Cash flow statement	Note	2001 £000	2000 £000
Cash inflow/(outflow) from operating activities	24	**3,435**	(22,566)
Returns on investments and servicing of finance	25	**429**	693
Taxation		**27**	(225)
Capital expenditure and financial investment	25	**(1,402)**	(2,022)
Acquisitions and disposals	25	**-**	1,166
Disposal of properties held for sale		**8,888**	-
Cash inflow/(outflow) before management of liquid resources and financing		**11,377**	(22,954)
Management of liquid resources	25	**4,000**	15,028
Financing	25	**(5,219)**	12,977
Increase in cash in the year		**10,158**	5,051

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2001

	2001 £000	2000 £000
Profit/(loss) for the financial year	**2,043**	(106,629)
Exchange adjustments offset in reserves	**(336)**	(523)
Total recognised gains and losses relating to the financial year	**1,707**	(107,152)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2001

	2001 £000	2000 £000
Profit/(loss) for the financial year	**2,043**	(106,629)
Other recognised gains and losses relating to the year	**(336)**	(523)
New share capital subscribed	**81**	18,225
Other reserves arising on acquisition	**-**	142,959
Movement in warrant reserve	**(193)**	-
Net addition to equity shareholders' funds	**1,595**	54,032
Equity shareholders' funds at 1 January 2001	**74,748**	20,716
Equity shareholders' funds as at 31 December 2001	**76,343**	74,748

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

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.

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2001. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from 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 and loss account.

Goodwill and intangible assets
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 an estimated useful life of 20 years.

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 and loss account. No value is attributed to internally generated intangible assets.

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 and loss account.

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	-	life of lease
Office equipment	-	2 to 4 years
Motor vehicles	-	4 years

No depreciation is provided on freehold land.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and 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, net of exchange differences arising on related foreign currency borrowings.

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

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

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 against profits represents the contributions payable to the schemes in respect of the accounting period.

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 from professional services is recognised as the work is performed.

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.

Research & development expenditure
Expenditure on research & development is written off against profits in the year in which it is incurred.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

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 one class of business being the development and distribution of business software.

a) The geographical analysis of turnover is given below:

	2001 £000	2000 £000
EMEA	**45,730**	29,547
Americas	**16,173**	10,167
Asia-Pacific	**16,482**	11,282
Continuing Operations	**78,385**	50,996
Discontinued Operations	**-**	2,782
	78,385	53,778

b) An analysis of turnover by revenue type is given below:

	2001 £000	2000 £000
Licence revenue	**31,581**	21,721
Maintenance revenue	**27,487**	13,747
Professional services	**17,621**	14,288
Other income	**1,696**	1,240
Discontinued operations	**-**	2,782
	78,385	53,778

3 NET INTEREST RECEIVABLE

	2001 £000	2000 £000
Bank interest receivable	**510**	1,141
Interest Payable:		
On bank loans and overdrafts	**(28)**	(309)
On all other loans	**(53)**	(139)
	429	693

4 PROFIT ON DISPOSAL OF INVESTMENTS

The profit on disposal of investments in 2000 of £2,109,000 related to discontinued operations.

5 REORGANISATION COSTS

	2001 £000	2000 £000
Property closures	-	348
Redundancies	-	4,334
Asset write downs	-	1,071
Surplus motor vehicles	-	568
Other expenses	-	844
	-	7,165

Of the total reorganisation costs of £7,165,000 in 2000, £4,386,000 related to continuing operations and £2,779,000 related to discontinued operations.

6 LOSS ON SALE OF DISCONTINUED OPERATIONS

	2001 £000	2000 £000
Loss on disposal of Potential Development Limited	-	1,060
Loss on disposal of freecom.net GB plc	-	70,425
	-	71,485

7 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

		2001 £000	2000 £000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):			
Auditor's remuneration	- Group audit	130	216
	- Company audit	30	36
	- Other fees paid to the auditor	90	185
Depreciation		1,385	2,193
Other amounts written off tangible fixed assets		-	1,071
Amortisation impairment of goodwill and intangible fixed assets		3,590	16,460
Exchange gains (net)		(165)	(696)
Operating lease rentals: land and buildings		3,320	2,350
Operating lease rentals: other assets		1,371	1,148

8 DIRECTORS' REMUNERATION AND SHAREHOLDINGS

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

9 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	
	2001	2000
Selling	**195**	163
Research and technical	**355**	343
Management and administration	**230**	146
	780	652

The aggregate payroll costs of these persons were as follows:

	2001	2000
	£000	£000
Wages and salaries	**29,161**	20,680
Social security costs	**3,009**	2,613
Other pension costs	**1,150**	797
	33,320	24,090

10 TAXATION

	2001	2000
	£000	£000
UK corporation tax		
Current tax on income at 30% (2000 at 30%)	**-**	-
Foreign tax		
Current tax on income	**146**	705
	146	705

11 EARNINGS /(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) on ordinary activities after taxation divided by the weighted average number of shares in issue during the year. The adjusted earnings/(loss) per share is based on the profit/(loss) excluding non-operating gains and losses and amortisation of goodwill.

a) Profit/(loss)	2001 £000	2000 £000
Profit/(loss) for the financial year	**2,043**	(106,629)
Amortisation of goodwill	**3,590**	16,460
Depreciation on discontinued operations	**-**	168
Loss on sale of discontinued operations	**-**	71,485
Reorganisation costs	**-**	7,165
Profit on disposal of investments	**-**	(2,109)
Discontinued operations	**-**	6,336
Profit on disposal of properties	**(1,586)**	-
Adjusted profit for the financial year	**4,047**	(7,124)

b) Number of shares (in thousands)	2001	2000
Weighted average number of shares – used to calculate basic earnings per share	**103,310**	85,087
Effect of dilutive share options	**2,399**	-
Number of shares used to calculate diluted earnings per share	**105,709**	85,087

12 INTANGIBLE FIXED ASSETS

Group	Licences £000	Goodwill £000	Total £000
Cost			
At 1 January 2001	1,185	84,075	85,260
Adjustments	-	293	293
Additions	150	-	150
At 31 December 2001	1,335	84,368	85,703
Amortisation and impairment			
At 1 January 2001	1,185	15,275	16,460
Charged in year	44	3,546	3,590
At 31 December 2001	1,229	18,821	20,050
Net book value			
At 1 January 2001	-	68,800	68,800
At 31 December 2001	**106**	**65,547**	**65,653**

13 TANGIBLE FIXED ASSETS

Group	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2001	3,600	3,814	62	7,476
Additions	45	1,115	12	1,172
Disposals	(2)	(1,257)	(74)	(1,333)
At 31 December 2001	3,643	3,672	-	7,315
Depreciation				
At 1 January 2001	320	2,406	34	2,760
Charge for year	165	1,217	3	1,385
On disposals	(2)	(1,260)	(37)	(1,299)
At 31 December 2001	483	2,363	-	2,846
Net book value:				
At 1 January 2001	3,280	1,408	28	4,716
At 31 December 2001	**3,160**	**1,309**	**-**	**4,469**

Company	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2001	361	963	19	1,343
Additions	-	19	-	19
Disposals	-	(933)	(19)	(952)
At 31 December 2001	361	49	-	410
Depreciation				
At 1 January 2001	6	931	8	945
Charge for year	-	15	-	15
On disposals	-	(932)	(8)	(940)
At 31 December 2001	6	14	-	20
Net book value:				
At 1 January 2001	355	32	11	398
At 31 December 2001	**355**	**35**	**-**	**390**

The net book value of land and buildings comprises:

	Group		Company	
	2001 £000	2000 £000	**2001 £000**	2000 £000
Freehold	**2,388**	2,438	**355**	355
Long leasehold	**772**	842	**-**	-
	3,160	3,280	**355**	355

14 FIXED ASSET INVESTMENTS

Group	Interest in own shares £000
Cost and net book value at 1 January 2001	-
Reclassification	6,300
At 31 December 2001	**6,300**

Company	Interest in own shares £000	Shares in subsidiary undertakings £000	Total £000
Cost at 1 January 2001	-	78,464	78,464
Additions	-	200	200
Reclassification	6,300	-	6,300
At 31 December 2001	6,300	78,664	84,964
Amounts written off at 1 January and 31 December 2001	-	24,212	24,212
Net book value:			
At 1 January 2001	-	54,252	54,252
At 31 December 2001	**6,300**	**54,452**	**60,752**

The principal subsidiary undertakings of the Group at 31 December 2001 were as follows:

	Country of Incorporation/ Registration	Percentage of shares held
Systems Union SA (1)	Argentina	100%
Systems Union Pty Limited (1)	Australia	100%
Systems Union Ltda (1)	Brazil	100%
Systems Union Inc (1)	Canada	100%
Systems Union Holdings Limited	England and Wales	100%
Systems Union Limited (1)	England and Wales	100%
Pegasus Group plc	England and Wales	100%
Pegasus Software Limited (1)	England and Wales	100%
Systems Union eBusiness Solutions Limited	England and Wales	100%
Systems Union Hosting Limited	England and Wales	100%
Systems Union Sarl (1)	France	100%
Systems Union GmbH (1)	Germany	100%
Systems Union Limited (1)	Hong Kong	100%
Systems Union Limited (1)	Japan	100%
Systems Union Mexico SA de CV (1)	Mexico	100%
Systems Union Software Pte Limited (1)	Singapore	100%
SunSystems Iberica Spa (1)	Spain	100%
Systems Union Inc (1)	USA	100%

Note 1 – Shares held by subsidiary undertaking

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.

15 DEBTORS

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Trade debtors	**14,974**	14,657	**-**	33
Amounts owed by Group undertakings	**-**	-	**10,395**	16,495
Other debtors	**1,392**	3,138	**54**	16
Prepayments and accrued income	**2,215**	1,311	**3**	45
	18,581	19,106	**10,452**	16,589

16 OTHER CURRENT ASSETS

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Interest in own shares	-	6,300	-	6,300

The Interest in own shares has been reclassified as a fixed asset investment.

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Bank and other loans	**-**	3,400	**-**	-
Trade and other creditors	**6,642**	5,626	**-**	182
Amounts owed to group undertakings	**-**	-	**10,306**	8,981
Taxation and social security	**272**	2,554	**20**	95
Other creditors	**4,641**	5,817	**63**	93
Accruals	**6,190**	6,993	**755**	1,502
	17,745	24,390	**11,144**	10,853

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Bank and other loans	**-**	1,900	-	-
Other creditors	**826**	1,273	-	-
	826	3,173	-	-

	Group		Company	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Analysis of debt				
Debt can be analysed as falling due:				
In one year or less, or on demand	-	3,400	-	-
Between one and two years	-	400	-	-
Between two and five years	-	1,500	-	-
		-	-	
	-	5,300	-	-

19 PROVISIONS FOR LIABILITIES AND CHARGES

		Other	
	Taxation	Provisions	Total
Group	**£000**	**£000**	**£000**
At 1 January 2001	1,272	1,312	2,584
Utilised during year	(16)	(754)	(770)
Goodwill adjustment	354	53	407
Amounts released unused	-	(43)	(43)
Exchange differences	19	7	26
At 31 December 2001	**1,629**	**575**	**2,204**

20 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 manages borrowings and invests surplus funds.

Liquidity risk

The Group finances its operations through a combination of retained profits, new equity and intercompany loans.
The Group started the year with £9.1 million in cash and liquid resources. At 31 December the Group's cash and liquid resources stand at £15.3 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 material impact to 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.

Interest rate risk

The Group's borrowings at 31 December 2000 comprised £5.3 million of loans. The borrowings attracted interest at the rate of 7.1% on average. They were repaid in full in April 2001 out of the proceeds of disposal of a surplus freehold property. No new borrowings have been taken out.

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 its own shares. The carrying value of this asset is £6.3 million being 70p per share. As at 31 December 2001 the market value was approximately £7.5 million.

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Financial assets

The interest rate profile of the Group's financial assets, other than debtors was as follows:

Currency	**2001 Floating Rate £000**	2000 Floating Rate £000	2000 Fixed Rate £000	2000 Total £000
Sterling	**13,344**	3,489	4,000	7,489
Euros	**355**	371	-	371
Canadian dollars	**162**	33	-	33
US dollars	**282**	363	-	363
Hong Kong dollars	**324**	412	-	412
Singapore dollars	**195**	81	-	81
Yen	**238**	118	-	118
Australian dollars	**393**	268	-	268
Sterling	**15,293**	5,135	4,000	9,135

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. There were no fixed rate sterling deposits at 31 December 2001.

The average interest rate earned during 2001 was 5.1%. The fair value of the financial assets approximates to their book values.

Financial Liabilities

The Group had no financial liabilities as at 31 December 2001, other than trade and other creditors and accruals.
At 31 December 2000 the interest rate profile of the Group's financial liabilities was as follows:

	Currency	Total £000	Floating Rate £000	Fixed Rate £000	Interest Rate £000
Secured bank loan	Sterling	2,300	2,300	-	7.25%
Other secured loan	Sterling	3,000	-	3,000	7%
Total at 31 December 2000		5,300	2,300	3,000	7.1%

The above loans were repaid in April 2001 out of the proceeds on disposal of a surplus freehold property.

21 SHARE CAPITAL

	2001 Number	2001 £000	2000 Number	2000 £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	**103,430,326**	**5,172**	103,170,187	5,158

During the year, 260,139 ordinary shares were issued at an aggregate nominal value of £13,007 and at a premium of £67,025 as a result of exercise of share options.

Share Option Schemes

At 31 December 2001 the following options over ordinary shares of the Company granted to employees were outstanding:

Exercise Period	Date of grant	Number of shares	Exercise price (pence)
Systems Union Group plc Employee Share Option Scheme (1999)			
15 June 2000 – 28 February 2010	28 February 2000	3,987	352.5
6 July 2000 – 27 June 2010	27 June 2000	711,303	63.0
9 October 2003 – 9 October 2010	9 October 2000	150,000	55.0
26 October 2003 – 26 October 2010	26 October 2000	3,874,424	51.5
7 November 2003 – 7 November 2010	7 November 2000	100,000	53.0
20 December 2003 – 20 December 2010	20 December 2000	645,000	70.5
3 January 2001 – 3 January 2011	3 January 2001	75,000	67.5
13 February 2001 – 13 February 2011	13 February 2001	75,000	85.5
6 April 2001 – 6 April 2011	6 April 2001	1,420,511	63.5
26 June 2001 – 26 June 2011	26 June 2001	444,000	62.5
28 November 2001 – 28 November 2011	28 November 2001	890,000	82.5
		8,389,225	

21 SHARE CAPITAL (CONTINUED)

Exercise period	Date of Grant	Number of shares	Exercise price (pence)
Super Options from above Scheme			
13 December 2003 – 13 December 2010	13 December 2000	2,000,000	61.5
18 May 2004 – 18 May 2011	18 May 2001	1,350,000	77.0
26 June 2004 – 26 June 2011	26 June 2001	200,000	62.5
28 November 2004 – 28 November 2011	28 November 2001	250,000	82.5
		3,800,000	
Pegasus Group plc Employee Sharesave Scheme			
1 July 2002 – 31 December 2002	13 June 1997	19,105	117.0
1 November 2001 – 30 April 2002	1 October 1998	1,874	104.0
1 November 2003 – 30 April 2004	1 October 1998	11,273	104.0
		32,252	
Oneview.net Approved/Unapproved Share Option Scheme			
24 May 2000 – 22 September 2009	22 September 1999	560,000	61.0
		560,000	
Systems Union Group Limited Employee Share Scheme			
3 May 2000 – 7 May 2009	7 May 1999	256,093	108.0
3 May 2000 – 1 April 2010	1 April 2000	190,753	108.0
		446,846	
Systems Union Group plc Pre-Float Options			
1 December 1999 – 06 May 2005	06 May 1998	282,919	5.0
26 July 2002 – 26 July 2006	26 July 1999	115,000	23.6
3 November 2002 – 3 November 2006	3 November 1999	85,000	23.6
19 November 2002 – 19 November 2006	19 November 1999	1,875	25.0
		484,794	
Total of options outstanding to employees and ex-employees (including directors)		**13,713,117**	

22 SHARE PREMIUM AND RESERVES

Group	Share Premium account £000	Merger Reserve £000	Warrant Reserve £000	Profit and loss account £000
At 1 January 2001	35,896	57,662	1,892	(25,860)
Retained profit	-	-	-	2,043
Premium on share issues	67	-	-	-
Transfers	-	(3,544)	(223)	3,767
Other movements	-	-	(193)	-
Exchange adjustments	-	-	-	(336)
At 31 December 2001	**35,963**	**54,118**	**1,476**	**(20,386)**

Company	Share Premium account £000	Merger Reserve £000	Warrant Reserve £000	Profit and loss account £000
At 1 January 2001	35,896	57,662	1,892	(25,860)
Retained loss for the year	-	-	-	(916)
Premium on share issues	67	-	-	-
Transfers	-	-	(416)	416
At 31 December 2001	**35,963**	**57,662**	**1,476**	**(26,360)**

23 COMMITMENTS

(a) The Group and Company have no contracted capital commitments at 31 December 2001.
(b) Annual commitments under non-cancellable operating leases are as follows:

Group	2001 Land and buildings £000	2001 Other £000	2000 Land and buildings £000	2000 Other £000
Operating leases which expire:				
Within one year	**546**	**451**	970	428
In the second to fifth years inclusive	**980**	**1,229**	2,090	1,049
Over five years	**2,111**	**14**	1,568	-
	3,637	**1,694**	4,628	1,477

Company	2001 Land and buildings £000	2001 Other £000	2000 Land and buildings £000	2000 Other £000
Operating leases which expire:				
Within one year	**-**	**29**	-	36
In the second to fifth years inclusive	**-**	**9**	-	60
	-	**38**	-	96

24 RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2001 £000	2000 £000
Operating profit/(loss)	**1,760**	(30,076)
Amortisation/impairment of intangibles	**3,590**	16,460
Reorganisation costs	**-**	(5,794)
Depreciation	**1,385**	2,193
Loss on sale of fixed assets	**34**	48
Profit on sale of properties	**(1,586)**	-
Decrease in debtors	**556**	888
Decrease in creditors	**(4,199)**	(6,034)
Increase in deferred income	**2,622**	90
Decrease in provisions	**(727)**	(341)
Net cash inflow/(outflow) from operating activities	**3,435**	(22,566)

25 ANALYSIS OF CASH FLOWS

	2001 £000	2000 £000
Returns on investment and servicing of finance		
Interest received	510	1,141
Interest paid	(81)	(448)
Net cash inflow from returns on investment and servicing of finance	429	693
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,172)	(3,058)
Purchase of investments	(80)	(4,223)
Sale of investment	-	4,952
Sale of tangible fixed assets	-	307
Purchase of intangible licence	(150)	-
Net cash outflow from capital expenditure and financial investment	(1,402)	(2,022)
Acquisitions and disposals		
Purchase of subsidiary undertakings	-	(9,708)
Net funds acquired with subsidiary undertakings	-	2,016
Sale of discontinued operations	-	9,000
Net funds disposed with discontinued operations	-	(142)
Net cash inflow from acquisition and disposals	-	1,166
Management of liquid resources		
Movement in short term deposits	4,000	15,028
Financing		
Issue of ordinary share capital	81	15,277
Repayment of bank loans	(5,300)	(2,300)
Net cash (outflow)/inflow from financing	(5,219)	12,977

26 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 £1,186,000 (2000:£797,000).

Contributions amounting to £99,000 (2000:£136,000) were payable to the schemes 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, Hants GU14 6XP on Tuesday 23 April 2002 at 12.30 pm 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 2001 together with the report of the auditors.
2. To re-elect Paul James Coleman 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.
3. To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

Special Business

To consider and, if thought fit, to pass the following resolution numbered 4 as an Ordinary Resolution:

4. 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 £1,727,127 (being 33.3% 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 2003 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 5 and 6 as Special Resolutions:

5. That subject to the passing of Ordinary Resolution number 4 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 4 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 £259,328 (being 5 per cent of the total nominal value of the Company's shares in issue as at the date of this notice).

6. 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 10,300,000 representing approximately ten 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 five 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 2003 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
18 March 2002

Registered Office
Systems Union House
1 Lakeside Road
Aerospace Centre
Farnborough, Hants
GU14 6XP

NOTES TO THE NOTICE OF THE ANNUAL GENERAL MEETING

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 IRG plc, Proxy Department, Bourne House, 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.

Systems Union

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