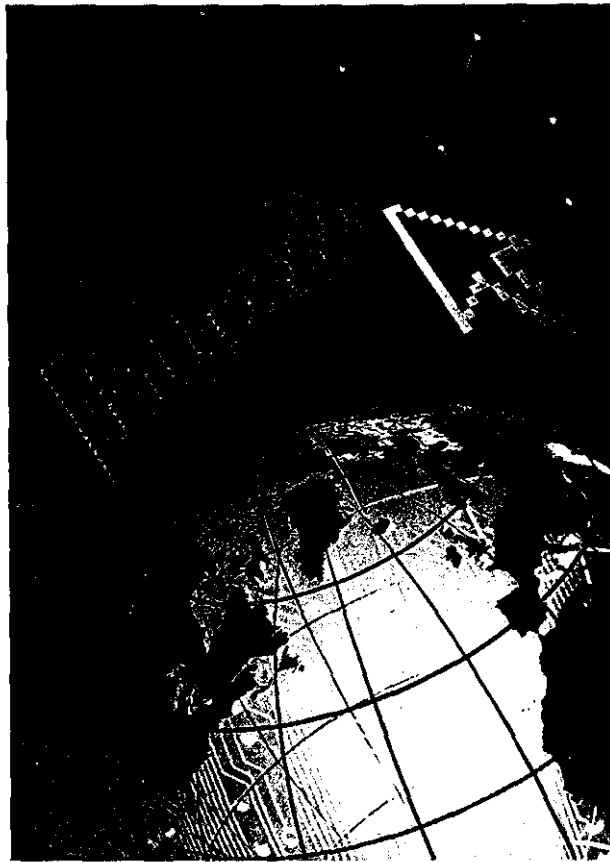




FINANCIAL OBJECTS

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COMPANIES HOUSE

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# Directors' Report

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2001.

## Principal activities and review of the business

The Group is a banking software and services business, which uses IBM and Microsoft technologies. The Group's core products are international banking systems, ActiveBank and IBIS, which are sold by the Group on an international basis to banks and other financial services organisations from the UK and branches in the USA, Singapore, Hong Kong, Luxembourg and Czech Republic. The majority of the Group's current product range is focused on providing software solutions for the front, middle and back office processing requirement of such institutions. In addition to providing software products, the Group offers its customers a range of associated services including business consultancy, implementation, training and support.

A review of the Group's activities is contained in the Chairman's Statement and Chief Executive's Operating Review.

## Dividends

The Directors recommend the payment of a final dividend of 1.5p (2000: 1.5p) per share, which, if approved by shareholders, will be paid on 15 May 2002 to shareholders registered on 12 April 2002. When added to the interim dividend of 1.0p paid on 12 October 2001, this makes a total dividend payment for the year of 2.5p per share (2000: 2.5p). Payment of these dividends amounts to £989,000 (2000: £965,000).

## Share capital

As at 28 February 2002, the Company had been notified that the following persons had an interest of 3 per cent or more in the share capital of the Company:

	Percentage of share capital	Number of 2p ordinary shares
R K Foster	16.0%	6,330,454
Thompson Clive Funds	11.3%	4,442,522
Henderson	10.6%	4,184,425
Standard Life	3.8%	1,497,220
Fidelity	3.7%	1,441,440

## Directors and Directors' interests

The Directors at the year-end are listed on page 13.

On 1 October 2001 Mr S Lane was appointed to the Board and Mr P Walsh retired from the Board. On 1 January 2002 Mr M Hayman was appointed to the Board and Mr R Thompson retired from the Board. In accordance with the Company's Articles of Association, Mr S Lane and Mr M Hayman stand for re-appointment by shareholders at the forthcoming annual general meeting. Mr R K Foster retires by rotation and offers himself for re-election at the annual general meeting.

At 31 December 2001 the Directors had the following beneficial interests in the share capital of the Company:

	2001 ordinary shares of 2p each	2000 ordinary shares of 2p each
R K Foster	6,330,454	6,330,454
D J Gutteridge	366,919	366,919
D Carruthers	14,000	14,000
S Lane (appointed 1 October 2001)	Nil	Nil
R H Thompson (resigned 1 January 2002)	65,218	65,218
J Standen	50,000	21,739

Included in R K Foster's 6,330,454 shares are 450,000 shares over which options have been granted to the Directors and certain members of the senior executive team as detailed below.

R H Thompson also had an indirect interest in the Company through his involvement with the Thompson Clive funds invested in it.

Details of the Directors' share options are included within the Remuneration Report by the Board on pages 18, 19 and 20. The Directors' share options are in addition to the shares set out above.

On 4 January 2002, M Hayman purchased 11,749 shares in the company. No other changes in Director's shareholdings took place between 31 December 2001 and 28 February 2002.

As previously announced by the Company, on 2 January 2001, Roger Foster granted options over 100,000 2p ordinary shares that he holds in the capital of the Company as follows:

D Carruthers	50,000 shares
D Gutteridge	50,000 shares

In addition and on the same date, Roger Foster granted similar options over 300,000 2p ordinary shares that he holds in the capital of the Company to certain members of the senior executive team. Included in the 300,000 shares were 50,000 granted to S Lane, who has since been appointed as a Director.

# Directors' Report continued

The option price for each of the above is 101.5p.

On 3 October 2001 a further 50,000 options were granted to S Lane at the option price of 55p. The options granted to S Lane on 2 January, as noted above, were amended such that the option price was reduced from 101.5p to 55p.

## Research and development

The Group regards research and development as essential to its future profitability and invested £2,057,000 on these activities in the year ended 31 December 2001 (2000: £4,674,000), all of which has been charged against profits.

## Employees

The Group's policy is to consult and discuss with the employees on matters likely to affect employee interests, including information about the Group's achievements and plans. This is accomplished through individual performance reviews and team briefings. Participation by employees in the progress and profitability of the Group is encouraged, where appropriate through annual performance-related bonus payments. Additionally, at 31 December 2001, 73 (2000: 114) employees held options under The Financial Objects plc Executive Share Option Scheme.

It is the Group's policy to ensure equal opportunity for employment, training, career development and promotion, irrespective of sex, race, religion or disability. In the event of members of staff becoming disabled, every effort would be made to ensure that their employment with the Group continues and that appropriate training is arranged.

## Creditor payment policy

The Group has not adopted any formal code or standards on supplier payment practice. The Group's policy is to settle payments having negotiated and advised terms and conditions with suppliers on an individual basis prior to trading.

The creditor payment period for the Group is 33 days (2000: 48 days). The Company, being a holding company, had no creditors.

## Political and charitable donations

The Group made no political contributions during the year (2000: £nil). Donations to UK charities amounted to £2,874 (2000: £1,095).

## Annual General Meeting

The Company's annual general meeting will be held at the offices of Financial Dynamics Limited, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on 9 May 2002 at 11.00 a.m. A notice of annual general meeting is set out on page 36 and a form of proxy is enclosed. The following special business will be proposed:—

### *Authority to allot shares (Resolution 7)*

Your Directors are seeking authority under Section 80 of the Companies Act 1985 ("the Act") to allot shares up to an aggregate nominal value of £176,423, being the unissued ordinary share capital of the Company at 1st March 2002 (being less than one month prior to the date of the notice of the annual general meeting) in the event that they consider it appropriate to do so. The authority will be in substitution for all previous authorities, which accordingly will be revoked. The authority sought will expire at the conclusion of the next annual general meeting.

The Directors have no present intention to make any such issue of shares, other than in respect of shares that may be issued pursuant to the Company's share option schemes, but consider it desirable for them to be given this opportunity by shareholders.

### *Disapplication of pre-emption rights (Resolution 8)*

The Directors recommend that authority be obtained from the shareholders to allot ordinary shares for the cash otherwise than on a pre-emptive basis (as required by Section 89 of the Act) in limited circumstances in respect of some of the shares which the Directors will be authorised to allot pursuant to Resolution 7 described above. The Directors recommend that Section 89 of the Act should not apply to any allotment of shares in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders in accordance with normal practice in the United Kingdom, nor to an issue for cash or shares of an aggregate nominal amount of up to £39,478, which is equivalent to 5 percent of the Company's issued share capital at 1 March 2002 (being less than one month prior to the date of the notice of the annual general meeting). The authority sought will expire upon the conclusion of the next annual general meeting.

## Auditors

A resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming annual general meeting. In accordance with normal practice, the Directors will be authorised to determine the auditor's remuneration.

Approved by order of the Board of Directors on 12 March 2002 and signed on its behalf by:



David Gutteridge  
Company Secretary

Seven Dials Village  
45 Monmouth Street  
Covent Garden  
London WC2H 9DG

# Corporate Governance

## Code of best practice

The listing rules of the Financial Services Authority requires companies to state how they have applied the Principles of Good Governance and Code of Best Practice ("the Combined Code"). The purpose of this statement is to describe the Company's approach to corporate governance and, in particular, to explain how the Company has applied the principles set out in Section 1 of the Combined Code.

The Board fully supports the Combined Code and the Directors are satisfied that for the period ended 31 December 2001, the Company complied with the requirements of the Combined Code, except that no formal training programme existed for new and existing Directors.

## Directors

During the year ended 31 December 2001, the Board consisted of three executive and three non-executive Directors. Two of the three non-executive Directors are independent. No one individual or small group is able to dominate Board decision-making. The Board normally meets monthly and has adopted a schedule of matters specifically reserved for its decision. All Directors have access to the advice and service of the Company Secretary and may also take independent professional advice, at the expense of the Company. Directors are expected to bring an independent judgement to bear on issues of strategy, performance, resource and standards of conduct.

The Board includes individuals with many years' experience of the responsibilities of being Directors of a listed company; however no formal training programme exists. The Directors are supplied with regular information of a quality and form which the Company believes is suitable to enable the Board to discharge its duties. Under the Articles of Association each Director is required to retire by rotation once every three years. At this year's annual general meeting Mr R K Foster will retire and offer himself for re-election. New Directors are required to be subject to shareholder re-appointment at the first annual general meeting following their appointment to the Board. Mr S Lane and Mr M Hayman will offer themselves for re-appointment.

Certain responsibilities are dealt with through appropriately delegated committees as follows:

### Audit committee

The Audit Committee comprises the three non-executive Directors, and is chaired by Mr J Standen. The committee has written terms of reference and normally meets three times a year. The duties of the Audit Committee are to make recommendations to the Board on the appointment of the external auditors and the audit fee; to review the interim and final reports of the Group prior to their gaining Board approval; to review the findings of external auditors and to ensure appropriate action is taken; to review the Group's statement on internal control prior to its endorsement by the board and to review the Group's statement on going concern. The external auditors are entitled and the Group Finance Director is invited to attend where appropriate. The Committee has the discretionary power to invite others to the meeting.

### Remuneration committee

The Remuneration Committee comprises the two independent non-executive Directors and is chaired by Mr M Hayman. The Committee has written terms of reference and meets at least once a year. The main duties of the Remuneration Committee are to make recommendations to the Board on the Company's framework of executive remuneration and to award appropriate remuneration packages to individual executive Directors including pension rights, share options and any compensation payments. The Company's remuneration policy, summary of remuneration and details of service contracts are included in the Remuneration Report set out on pages 18, 19 and 20.

### Nominations committee

The Nominations Committee comprises the three non-executive Directors and is chaired by Mr R K Foster. The Committee has written terms of reference and meets as necessary to assess the suitability of persons for appointment as executive Directors and non-executive Directors and, if appropriate, nominate new candidates for the approval of the full Board.

### Relations with shareholders

The Board is always prepared, where practicable, to enter into a dialogue with the institutional shareholders based on the mutual understanding of objectives and being mindful of the Company's obligations under the Listing Rules of the Financial Services Authority. The annual general meeting is used to communicate with private investors and their participation is welcomed by the Board. The respective chairmen of the Audit and Remuneration Committees are available to answer questions at the annual general meeting. An announcement is made, after the vote on a show of hands, of proxy votes lodged for each resolution at the annual general meeting.

## Accountability and audit

### Internal controls

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Combined Code introduced a requirement, that the Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls, including financial, operational, compliance and risk management.

## Corporate Governance continued

### *Turnbull*

The Board confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of the annual report and accounts, and that this process is regularly reviewed by the Board and accords with the guidance.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. A management team, involving Board members and members of the executive management team, formed for this purpose has been given responsibility for the identification and evaluation of significant risks applicable to their area of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and cover the spectrum of internal and external issues, including product development, competition, disruption to systems and regulatory requirements.

Given the size of the Group, the executive members of the Board are closely involved in the day-to-day management of the business and are directly responsible for key risk areas. They report regularly through a self-assessment process to the rest of the Board on significant changes in risks in their parts of the business and how these risks are being managed. A member of the Board has responsibility, on behalf of the Board, for overseeing these processes, for providing a degree of assurance as to the operation and validity of the system of internal control and for ensuring planned corrective actions and improvements are independently monitored for timely completion. They report their findings to the Audit Committee and the Board on a biannual basis.

In line with many companies of its size, the Group does not have an internal audit function. The Board considers that given the size of the Group and the active day-to-day involvement of the executive Directors, such a function would not add sufficient value.

### **Going concern**

After making enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently, they have continued to adopt the going concern basis in preparing the financial statements.

# Remuneration Report

## Remuneration policy

The Board of Directors is responsible for determining the Company's remuneration policy. The Remuneration Committee makes recommendations to the Board, which aims to ensure that the remuneration packages offered are competitive and capable of attracting, retaining and motivating executive Directors and other senior executives of the appropriate calibre. It takes account of remuneration payments made by companies of a similar nature, principally in the technology sector. It will aim to implement a consistent policy, taking into account the nature and age of the business. The components of remuneration of the executive Directors are annual salary, health insurance, car and other benefits and membership of a pension scheme.

The performance based remuneration is set by the Remuneration Committee at 50 per cent on achievement of budgeted profit before amortisation and tax, rising by up to a further 50 per cent of salary dependent on actual profit before amortisation and tax. Share options are awarded to Directors based upon performance at the discretion of the Remuneration Committee.

## Summary of remuneration

### Annual salary and benefits

The salary and benefits of each Director, which are reviewed annually, take into account the performance of the individual and comparable market rates.

### Pensions

The Company pays a total of 15 per cent of basic salary, which the Remuneration Committee considers reasonable and fair when compared with similar companies' arrangements. These payments are made as employer contributions into the Group's defined contribution plans.

### Share Option Schemes

David Carruthers participated in the Financial Objects Executive Share Options Scheme, which is described on page 19. Details of his interests under this scheme are also set out on page 19. No other Director had share options under this scheme. David Carruthers, David Gutteridge and Steve Lane have been granted options under the two other share option schemes (the 1998 Scheme and the R K Foster Scheme) details of which are set out on pages 19 and 20.

### Service contracts

All executive Directors have agreements that can be terminated by the Company on 12 months' notice.

### Non-executive Directors

The remuneration of the non-executive Directors is determined by the Board with regard to market practice and subject to the Company's Articles of Association. The Board has the power to pay additional remuneration for services outside the scope of the ordinary duties of a non-executive Director. Non-executive Directors are appointed on specified terms without an automatic right of re-appointment. All non-executive Directors have agreements, which can be terminated by the Company on six months' notice.

## Details of the Directors' remuneration

The remuneration of the Directors in the year ended 31 December 2001 was as follows:

		Remuneration				Group contributions to defined contribution pension schemes	
Note	Salary £000	Benefits £000	Bonus £000	2001 Total £000	2000 Total £000	2001 £000	2000 £000
<b>Executive</b>							
D Carruthers		155	15	30	200	101	7
D J Gutteridge		150	13	—	163	133	13
S Lane	3	30	3	—	33	—	—
P Walsh	2	230	12	—	242	123	11
I Chester	5	—	—	—	—	234	22
<b>Non-Executive</b>							
R K Foster	1	60	21	—	81	142	13
J Standen		25	—	—	25	25	—
R H Thompson	4	25	—	—	25	25	—

No Director made gains on the exercise of share options in 2001 or 2000.

<sup>1</sup> Mr R K Foster became non-executive on 1 January 2001.

<sup>2</sup> Mr P Walsh ceased to be a Director of the Company on 1 October 2001. Included in his salary of £230,000 is £140,000 for compensation for loss of office.

<sup>3</sup> Mr S Lane was appointed to the Board on 1 October 2001.

<sup>4</sup> Mr R H Thompson left the Board on 1 January 2002.

<sup>5</sup> Included in Mr I Chester's salary for 2000 was £136,000 for compensation for loss of office, as a result of his leaving the company on 21 August 2000.

# Remuneration Report continued

## Directors' interests and share options

The interests of the Directors holding office at the end of the year in the 2p ordinary shares in the Company according to the register maintained in compliance with the Companies Act 1985 are set out in the Directors' report on page 14.

Details of movements in Director's share options are set out below:

### 1 Financial Objects Executive Share Option Scheme ("FOESOS")

	Date of Grant	Exercise Period	Exercise Price	At 31 December 2000	Granted During Year	Exercised During Year	At 31 December 2001
D Carruthers	14/12/96	13/12/99 – 13/12/03	10p	100,000	–	–	100,000

### 2 Financial Objects plc 1998 Share Option scheme ("The 1998 Scheme")

	Date of Grant	Exercise Period	Exercise Price	At 31 December 2000	Granted During Year	Cancelled During Year	At 31 December 2001
D Carruthers	6/4/00	15/4/03 – 14/4/07	£4.67	92,077	–	–	92,077
D Carruthers	11/4/01	11/4/04 – 11/4/08	£1.28	–	120,000	–	120,000
D Gutteridge	6/4/00	15/4/03 – 14/4/07	£4.67	102,783	–	–	102,783
D Gutteridge	11/4/01	11/4/04 – 11/4/08	£1.28	–	80,000	–	80,000
S Lane <sup>1</sup>	29/8/00	29/8/03 – 29/8/07	£1.14	75,000	–	–	75,000
S Lane	11/4/01	11/4/04 – 11/4/08	£1.28	–	50,000	–	50,000
P Walsh <sup>2</sup>	6/4/00	15/4/03 – 14/4/07	£4.67	92,077	–	92,077	–
P Walsh	11/4/01	11/4/04 – 11/4/08	£1.28	–	35,000	35,000	–

<sup>1</sup> Mr S Lane was appointed as a Director on 1 October 2001. No options have been granted to him subsequent to this date from this scheme. However options have been issued under the R K Foster Scheme, details of which are shown below.

<sup>2</sup> Mr P Walsh resigned as a Director on 1 October 2001, at which point his share options were cancelled.

No further issues of options have been made up to and including 28 February 2002.

### 3 The R K Foster Scheme

	Date of Grant	Exercise Period	Exercise Price	At 31 December 2000	Granted During Year	Exercised During Year	At 31 December 2001
D Carruthers	2/1/01	14/3/02 – 31/3/02	£1.01½	–	50,000	–	50,000
D Gutteridge	2/1/01	14/3/02 – 31/3/02	£1.01½	–	50,000	–	50,000
S Lane*	2/1/01	14/3/02 – 31/3/02	55p	–	50,000	–	50,000
S Lane	3/10/01	14/3/02 – 31/3/02	55p	–	50,000	–	50,000

\* The options granted to Mr S Lane on 2 January 2001 were originally granted at £1.01½p. The exercise price was subsequently amended to 55p on 3 October 2001.

The share price on 31 December 2001 was 83p (2000: 96p). During the year the price ranged between 38p and 149p.

### Financial Objects plc Executive Share Option Scheme (FOESOS)

Options under the Executive Scheme may be exercised between three and seven years of the anniversary of the date of the grant. All unexercised options lapse on the seventh anniversary of the date of grant. Where an option holder ceases to be an employee, the option will lapse unless and to the extent that the Board in its discretion otherwise determines. This rule will not apply to a pregnant employee with a right to return to work or to an employee who dies or otherwise ceases to be employed within the Group on or after the third anniversary of the date of grant (otherwise than in circumstances justifying his summary dismissal) where he or his personal representatives may exercise his option at any time or from time to time within a period of three months after ceasing to be so employed.

# Remuneration Report continued

Options can be exercised on a take-over, liquidation or scheme of reconstruction. Options may be adjusted at the discretion of the Board following certain variations in the share capital of the Company, including a capitalisation or rights issue, sub-division or consolidation of share capital, provided that no adjustment to the subscription price should be made which would result in the shares subject to any option being issued at a discount to their nominal value and provided that the auditors have reported in writing to the Board that such adjustment is in their opinion fair and reasonable.

Any shares allocated on the exercise of options under the Executive Scheme rank pari passu in all respects with shares in issue at that date of exercise of such options and participate in all dividend or other distributions which may be declared, made or paid by reference to a record date after such date.

## **Financial Objects plc 1998 Share Option Scheme ("The 1998 Scheme")**

This Scheme, which is Inland Revenue approved, was established at the time of the company's flotation in December 1998.

## **The R K Foster Scheme**

As stated in the Director's Report on pages 14 and 15, this share option scheme has been set up from existing shares owned by Mr R K Foster.



# 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 the 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.

## Report of the independent auditors to the Members of Financial Objects plc

We audited the financial statements on pages 22 to 34.

### Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 21 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Financial Services Authority, 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 or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 16 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### 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  
Chartered Accountants and Registered Auditor  
2 Cornhill Street, Birmingham B3 2DL  
12 March 2002

# Consolidated Profit and Loss Account

For the year ended 31 December 2001

	Note	2001 £000	2000 £000
Turnover – continuing operations	2	17,526	18,369
Operating costs	3	(17,151)	(20,052)
Operating profit before amortisation of goodwill and exceptional items		2,179	149
Amortisation of goodwill		(1,164)	(1,162)
Exceptional operating costs		(640)	(670)
Operating profit/(loss) – continuing operations	4	375	(1,683)
Other interest receivable and similar income		733	833
Interest payable and similar charges	5	(62)	(37)
Profit/(loss) on ordinary activities before taxation		1,046	(887)
Tax on profit/(loss) on ordinary activities	8	(712)	(156)
Profit/(loss) on ordinary activities after taxation		334	(1,043)
Dividends	9	(989)	(965)
Retained loss for the financial year	18	(655)	(2,008)
Earnings/(loss) per share	10	0.85p	(2.73p)
Adjusted earning per share	10	3.83p	0.31p
Diluted earnings/(loss) per share	10	0.84p	(2.61p)
Dividend per share		2.5p	2.5p

Movements on reserves are shown in note 18.

## Statement of Total Recognised Gains and Losses

For the year ended 31 December 2001

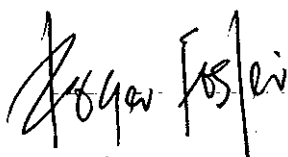
There are no recognised gains or losses for the current period other than those reflected in the profit and loss account above.

# Consolidated Balance Sheet

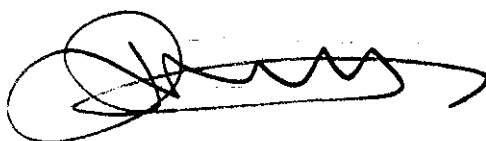
at 31 December 2001

	Note	£000	2001 £000	£000	2000 £000
<b>Fixed assets</b>					
Intangible assets	11		8,684		9,848
Tangible assets	12		785		453
			9,469		10,301
<b>Current assets</b>					
Debtors	14	6,138		8,313	
Cash at bank and in hand		15,549		13,835	
		21,687		22,148	
Creditors: Amounts falling due within one year	15	(7,006)		(7,759)	
<b>Net current assets</b>			14,681		14,389
<b>Total assets less current liabilities</b>			24,150		24,690
Provisions for liabilities and charges	16		(495)		(530)
<b>Net assets</b>			23,655		24,160
<b>Capital and reserves</b>					
Called up share capital	17(a)		789		774
Share premium account	18		19,886		19,751
Share capital to be issued	17(b)		200		200
Acquisition reserve	18		4,121		4,665
Profit and loss account	18		(1,341)		(1,230)
<b>Equity shareholders' funds</b>	20		23,655		24,160

These financial statements were approved by the Board of Directors on 12 March 2002 and were signed on its behalf by:



R K Foster  
Chairman



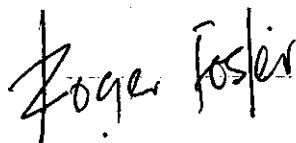
D J Gutteridge  
Director

# Company Balance Sheet

at 31 December 2001

	Note	2001 £000	2000 £000
<b>Fixed assets</b>			
Investment in subsidiaries	13	10,531	10,527
<b>Current assets</b>			
Debtors	14	9,082	12,519
Cash at bank and in hand		8,075	4,400
		17,157	16,919
<b>Creditors: Amounts falling due within one year</b>	15	(5,656)	(5,645)
<b>Net current assets</b>		11,501	11,274
<b>Net assets</b>		22,032	21,801
<b>Capital and reserves</b>			
Called up share capital	17(a)	789	774
Share premium account	18	19,886	19,751
Share capital to be issued	17(b)	5	1
Profit and loss account	18	1,352	1,275
<b>Equity shareholders' funds</b>		22,032	21,801

These financial statements were approved by the Board of Directors on 12 March 2002 and were signed on its behalf by:



R K Foster  
Chairman



D J Gutteridge  
Director

# Consolidated Cash Flow Statement

at 31 December 2001

	Note	£000	2001 £000	£000	2000 £000
Cash inflow/(outflow) from operating activities	24(a)		2,808		(117)
Returns on investments and servicing of finance	24(b)		737		873
Taxation			(154)		(1,332)
Capital expenditure	24(c)		(849)		(412)
Acquisition	24(d)		-		(421)
Equity dividend paid			(978)		(954)
Cash inflow/(outflow) before liquid resources and financing			1,564		(2,363)
Management of liquid resources			(150)		(423)
Financing	24(e)		150		88
Increase/(decrease) in cash in the year			1,564		(2,698)
Reconciliation of net cash flow to movement in net funds					
Increase/(decrease) in cash in the year		1,564		(2,698)	
Increase in liquid resources		150		423	
Change in net funds resulting from cash flows			1,714		(2,275)
Movement in net funds in year			1,714		(2,275)
Net funds at beginning of year			13,835		16,110
Net funds at end of year	24(f)		15,549		13,835

# Notes forming part of 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 Company's financial statements:

### Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable UK Accounting Standards. The Company is exempt by virtue of Section 230 of the Companies Act 1985, from the requirement to present its own profit and loss account.

### Basis of consolidation

The Group's financial statements consolidate those of the Company and all its subsidiary undertakings made up to the end of the Company's financial period. A list of the subsidiary undertakings can be found in note 13.

#### (a) Merger accounting

On 21 February 1997 the Company acquired the entire share capital of Financial Objects (UK) Limited with the consideration being satisfied by the issue of ordinary shares in the Company. In accordance with UK accounting standards the combination was accounted for as a Group reconstruction using the principles of merger accounting.

#### (b) Acquisition accounting

All other acquisitions have been accounted for using the principles of acquisition accounting. Under this method the results and cash flows of the subsidiary Companies acquired are included in the Group profit and loss account and the Group cash flow statement respectively from the dates of acquisition. Fair values are attributed to the Group's share of the identifiable net assets acquired.

### Goodwill

Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 Goodwill and Intangible Assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

On the sale of an acquired business the related goodwill, previously written off or taken to reserves will be included in the calculation of the profit or loss on disposal.

### Investments

In the Company's accounts, investments in subsidiary undertakings are stated at cost less amounts provided for any diminution in value. Where the consideration for the acquisition of shares in a subsidiary undertaking is satisfied by the issue of equity shares and the provision of Section 131 of the Companies Act 1985 apply, cost is taken as the nominal value of the shares issued together with the fair value of any other consideration given.

### Revenues

Revenue represents the amounts charged to external customers for goods and services during the period exclusive of value added tax. Revenue is recognised on delivery for new systems and additional modules unless, in the case of new systems, more specific and onerous acceptance criteria are contracted. For system upgrades and licence extensions, revenue is recognised on signature (signature gives the customer the right to extend the use of the system).

### Software development costs

All costs arising from developing and enhancing software are expensed as incurred.

### Operating lease commitments

Other than for onerous leases, rentals paid under operating leases are charged against income on a straight-line basis over the lease term.

### Onerous leases

Provision is made for the best estimate of the unavoidable cost, discounted where appropriate, of leasehold properties which are surplus to the Group's operating requirements.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, less depreciation. Depreciation is provided on the cost, less estimated residual value, over their expected useful lives, as follows:

Computer and office equipment	—	50%
Fixtures and fittings	—	50%
Leasehold improvements	—	20%-33.3%

### Pension costs

The Group's pension contributions in respect of defined contribution pension schemes are charged to the profit and loss account on the basis of contributions payable.

# Notes forming part of the Financial Statements continued

## Deferred income

Deferred income is calculated to provide for the anticipated direct and indirect costs of services and goods supplied for the remaining term of each contract. This deferred income is credited to sales on a time apportioned basis.

## Deferred taxation

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

## Foreign currency translation

Transactions in foreign currencies are recorded at the rates ruling at the dates of the respective transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

## Cash and liquid resources

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

Liquid resources are cash deposits which have a maturity longer than one day.

## 2. Segmental information

The Group has a single class of business and operates from the United Kingdom and from branches in the USA, Singapore, Luxembourg and the Czech Republic. The Group's turnover analysed by market destination and type of income is as follows:

	2001 £000	2000 £000
<b>By destination</b>		
United Kingdom	4,709	5,461
Rest of Europe	10,413	9,621
North America	1,057	797
Rest of the world	1,347	2,490
	<b>17,526</b>	<b>18,369</b>
<b>By type of income</b>		
Product licences	3,342	3,514
Product support	6,966	6,851
Product services	7,218	8,004
	<b>17,526</b>	<b>18,369</b>

A segmental analysis by origin is not presented on the basis that the substantial majority of the Group's activity originates in the UK.

## 3. Operating costs – continuing operations

	2001 £000	2000 £000
Other operating income	(127)	(131)
Other external charges	619	875
Staff costs	10,136	11,300
Depreciation and other amounts written off tangible and intangible fixed assets	1,689	1,754
Other operating charges	4,834	6,254
	<b>17,151</b>	<b>20,052</b>

Included in Operating Costs for 2001 is £640,000 in respect of a provision against a bad debt (2000: £670,000 in respect of reorganisation costs incurred during the year).

## 4. Operating profit/(loss)

	2001 £000	2000 £000
<b>Operating profit/(loss) is stated after charging/(crediting):</b>		
Auditors' remuneration in respect of all Group undertakings:		
Audit fees (Company £10,000 (2000: £10,000))	57	56
Other services (Company £Nil (2000: £Nil))	123	136
Exchange losses/(gains)	16	(17)
Operating leases rentals (other assets)	1,117	1,262
Rents receivable	(127)	(131)
Software development	2,057	4,674
(Profit)/loss on sale of fixed assets	(8)	10

# Notes forming part of the Financial Statements continued

## 5. Interest payable and similar charges

	2001 £000	2000 £000
Notional interest on discounting of provisions	32	37
Other interest payable	30	–
	62	37

## 6. Directors' remuneration

The Remuneration Report by the Board on pages 18 to 20 includes details of the Directors' emoluments and pensions, which form part of these accounts. Information relating to Directors' options can also be found in the Remuneration Report.

## 7. Staff numbers and costs

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

	2001 Number	2000 Number
Technical staff	137	148
Sales and administration staff	31	33
Directors	3	5
	171	186

The aggregate payroll costs of all these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	8,817	9,939
Social security costs	862	918
Other pension costs	457	443
	10,136	11,300

## 8. Taxation on profit/(loss) on ordinary activities

	2001 £000	2000 £000
UK corporation Tax		
– current tax on income for the year	455	130
– adjustment in respect of prior year	22	(55)
– ACT recovered	(2)	–
	475	75
Double taxation relief	–	(15)
	475	60
Foreign tax		
– current tax on income for the year	238	122
– adjustment in respect of prior year	(1)	(26)
	237	96
	712	156

## 9. Dividends paid and proposed

	2001 £000	2000 £000
Interim dividend paid - 1.0p per 2p ordinary share (2000: 1.0p)	396	384
Final dividend proposed - 1.5p per 2p ordinary share (2000: 1.5p)	593	581
	989	965



# Notes forming part of the Financial Statements continued

## 10. Earnings/(loss) per share

The basic earnings/(loss) per ordinary share have been calculated by dividing the profit after taxation for the year of £334,000 (2000: loss of £1,043,000) by the weighted average number of shares in issue during the year of 39,095,167 (2000: 38,238,242).

The adjusted earnings per share figures excluding goodwill amortisation provide a more accurate assessment of the ongoing earnings of the Group. Accordingly the figures have been given on the face of the profit and loss account and can be reconciled to the basic earnings per share as follows:

	2001 £000	2000 £000
Basic earnings/(loss)	334	(1,043)
Goodwill amortisation	1,164	1,162
Adjusted basic earnings	1,498	119
Adjusted basic earnings per ordinary share	3.83p	0.31p

The diluted earnings/(loss) per share have been calculated by dividing the results after taxation for the year, as shown above, by the diluted weighted average number of shares in issue during the year of 39,853,430 (2000: 40,037,959).

The difference between the weighted average number of shares used to calculate the basic and the diluted earnings/(loss) per share is the number of share options deemed to be issued at no consideration, where the exercise price is less than the market value.

## 11. Intangible fixed assets

Group	Goodwill £000
Cost as at 1 January 2001 and 31 December 2001	11,608
Provisions for amortisation	
At 1 January 2001	1,760
Amortisation charged in period	1,164
At 31 December 2001	2,924
Net book value	
At 31 December 2001	8,684
At 1 January 2001	9,848

The goodwill which arose on the acquisition of 9000 Limited and Global Financial Systems Limited is being written off over a period of ten years from the dates of acquisition.

## 12. Tangible fixed assets

Group	Computer and office equipment £000	Leasehold improvements £000	Total £000
Cost			
At 1 January 2001	1,708	334	2,042
Additions	409	458	867
Disposals	(175)	(46)	(221)
At 31 December 2001	1,942	746	2,688
Depreciation			
At 1 January 2001	1,286	303	1,589
Charge for the year	425	100	525
On disposals	(167)	(44)	(211)
At 31 December 2001	1,544	359	1,903
Net book value			
At 31 December 2001	398	387	785
At 1 January 2001	422	31	453

There were no fixed assets held under finance leases.

# Notes forming part of the Financial Statements continued

## 13. Fixed asset investments

### Company

Investments held by the Company represent shares in subsidiary undertakings

	£000
<b>Cost</b>	
At 1 January 2001	10,527
Increase in deferred consideration	4
At 31 December 2001	10,531

The Company's subsidiary undertakings are as follows:

Company	Country of Incorporation	Nature of activity	Class of shares	Proportion of shares held
Financial Objects (UK) Limited	Great Britain	Software sale and development	Ordinary	100%
Financial Objects International Limited	Great Britain	Software sale and development	Ordinary	100%
FINO Software Services Limited	Great Britain	Software sales and support	Ordinary	100%
9000 Limited	Great Britain	Software sales and support	Ordinary	100%
Global Financial Systems Limited	Great Britain	Software sales and support	Ordinary	100%

During the year the majority of the trade and net assets of Global Financial Systems Limited were transferred to Financial Objects (UK) Limited at their book value which was less than their fair value. The cost of the Company's investment in Global Financial Systems Limited reflected the underlying fair value of its net assets and goodwill at the time of acquisition. As a result of this transfer, the value of the Company's investment in Global Financial Systems Limited fell below the amount at which it was stated in the Company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the Company's profit and loss account. However, the Directors consider that, as there has been no overall loss to the Company, it would fail to give a true and fair view to charge that diminution to the Company's profit and loss account for the year and it should instead be re-allocated to the cost of the Company's investment in Financial Objects (UK) Limited. The effect of this departure is to reduce the carrying value of the Company's investment in Global Financial Systems Limited by £10,381,000 and to increase the carrying value of its investment in Financial Objects (UK) Limited by a corresponding amount. The Group accounts are not affected by this transfer.

All classes of ordinary shares carry equal voting rights.

## 14. Debtors

	2001 £000	Company 2000 £000	2001 £000	Group 2000 £000
Trade debtors	—	—	4,396	6,764
Amounts owed by subsidiary undertakings	8,931	12,383	—	—
Other debtors	19	25	64	131
Prepayments and accrued income	—	—	1,502	1,247
Corporation tax recoverable	132	111	176	171
	9,082	12,519	6,138	8,313

## 15. Creditors: Amounts falling due within one year

	2001 £000	Company 2000 £000	2001 £000	Group 2000 £000
Trade creditors	—	—	90	208
Amounts due to subsidiary undertakings	5,064	5,064	—	—
Corporation tax	—	—	563	—
Other taxes and social security	—	—	559	458
Other creditors	—	—	144	777
Accruals and deferred income	—	—	5,058	5,735
Proposed dividend	592	581	592	581
	5,656	5,645	7,006	7,759

# Notes forming part of the Financial Statements continued

## 16. Provisions for liabilities and charges

### Group

#### (a) Future lease obligations

	2001 £000
At 1 January 2001	530
Net rental expense in year	(67)
Movement in discounting provision	32
At 31 December 2001	495

The provision is calculated by discounting the potential future annual shortfalls on surplus leasehold properties which will expire in March 2012. The discount rate applied was 6 percent.

#### (b) Deferred tax

The deferred tax asset not recognised is as follows:

	2001 £000	2000 £000
Capital allowances in excess of depreciation	271	287
Other timing differences	29	164
	300	451

## 17(a). Share capital

	Number	2001 £000	Number	2000 £000
<b>Authorised:</b>				
Ordinary shares of 2p each	48,300,005	966	48,300,005	966
<b>Allotted called up and fully paid:</b>				
Ordinary shares of 2p each	39,478,816	789	38,726,316	774

The increase in issued share capital relates to the issue of 572,500 ordinary shares in respect of share options exercised for a total consideration of £150,750.

## 17(b). Share capital to be issued

	2001 £000	Company 2000 £000	2001 £000	Group 2000 £000
Share capital to be issued	5	1	200	200

Share capital to be issued relates to the Directors' estimate of the contingent element of the share consideration for the acquisition of the subsidiary undertaking, 9000 Limited, in the year. At a contracted value of £200,000, at the year end share price of 83p, this is equivalent to 240,964 ordinary shares of 2p to be issued (2000: shares to be issued based upon a share price of £6.83). The provisions of S131 CA1985 have been applied by the Company and the shares to be issued are recorded at their nominal value.

## 18. Reserves

### Group

	Share premium account £000	Acquisition reserve £000	Profit and loss account £000
At 1 January 2001	19,751	4,665	(1,230)
Deficit for the financial year	—	—	(655)
Arising on issue of ordinary share capital	135	—	—
Transfer to profit and loss account reserve	—	(544)	544
At 31 December 2001	19,886	4,121	(1,341)

The premium arising on the issue of ordinary share capital credited to the share premium account relates to the share options exercised.

# Notes forming part of the Financial Statements continued

## 18. Reserves continued

The cumulative amount of goodwill resulting from acquisitions of subsidiary undertakings which has been written off against reserves is £4,530,000 (31 December 2000: £4,530,000).

Company	Share premium account £000	Profit and loss account £000
At 1 January 2001	19,751	1,275
Retained profit for the financial year	—	77
Adding on issue of ordinary share capital	135	—
<b>At 31 December 2001</b>	<b>19,886</b>	<b>1,352</b>

The Company's profit for the financial year, before dividends, amounted to £65,000 (2000: £517,000).

## 19. Options

Total grant of options to subscribe for 2p ordinary shares, which remain outstanding at 31 December 2001, including those made during the period under review net of any options, which have been exercised or have lapsed, are as follows:

### Executive Share Option Scheme ("FOESOS") as at 31 December 2001

Date of grant	Period which generally exercisable		Exercise Price per share	Number of shares of 2p each
	From	To		
Dec 1996	Dec 1999	Dec 2003	10p	225,000
June 1997	June 2000	June 2004	20p	140,000
July 1997	July 2000	July 2004	20p	15,000
Oct 1997	Oct 2000	Oct 2004	20p	40,000
Dec 1997	Nov 2000	Nov 2004	20p	15,000
Jan 1998	Jan 2001	Jan 2005	20p	50,000
Jan 1998	Jan 2001	Jan 2002	40p	2,000
Jan 1998	Jan 2001	Jan 2005	40p	181,500
April 1998	April 2001	Oct 2002	40p	5,000
April 1998	April 2001	April 2005	40p	38,500
May 1998	May 2001	May 2005	80p	33,000
June 1998	June 2001	June 2005	80p	109,000
July 1998	July 2001	July 2005	80p	12,000
Aug 1998	Aug 2001	Aug 2005	160p	10,000
Sept 1998	Sept 2001	Sept 2005	160p	14,000
Oct 1998	Oct 2001	Oct 2002	160p	15,000
Oct 1998	Oct 2001	Oct 2005	160p	12,500
				<b>917,500</b>

Details of the Executive Share Option Scheme are included on page 19.

### Financial Objects Share Option Scheme as at 31 December 2001

Apr 2000	Apr 2003	Apr 2007	467.0p	194,860
May 2000	May 2003	May 2007	190.0p	60,000
Aug 2000	Aug 2003	Aug 2007	114.0p	470,000
Sept 2000	Sept 2003	Sept 2007	135.0p	110,000
Oct 2000	Oct 2003	Oct 2007	156.0p	20,000
Dec 2000	Dec 2003	Dec 2007	101.5p	20,000
Mar 2001	Mar 2004	Mar 2008	113.5p	25,000
Apr 2001	Apr 2004	Apr 2008	128.0p	500,000
Aug 2001	Aug 2004	Aug 2008	75.0p	50,000
Sept 2001	Sept 2004	Sept 2009	69.0p	10,000
				<b>1,459,860</b>

# Notes forming part of the Financial Statements continued

## 20. Reconciliation of movements in consolidated equity shareholders' funds

	2001 £000	Company 2000 £000	2001 £000	Group 2000 £000
Net proceeds on issue of new share capital	150	88	150	88
Adjustments to amounts arising on acquisition	—	(16)	—	(2,343)
Adjustment to share issue costs accrual	—	(24)	—	(24)
Retained profit/(loss) for the financial year	77	(448)	(655)	(2,008)
Opening equity shareholders' funds	21,801	22,201	24,160	28,447
Closing equity shareholders' funds	22,028	21,801	23,655	24,160

The amount arising on acquisition represents the difference between the shares previously shown as to be issued as part of the consideration of GFS, compared to those actually issued, along with the shares to be issued as part of the consideration of 9000 Limited.

## 21. Capital commitments

The Group and Company had no capital commitments at 31 December 2001 (31 December 2000 – £nil).

## 22. Other financial commitments

### Operating leases

At 31 December 2001, the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other		Total	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
Operating leases which expire:						
Within one year	56	101	46	80	102	181
In the second to fifth year inclusive	252	343	120	144	372	487
After five years	546	501	63	—	609	501
	854	945	229	224	1,083	1,169

## 23. Pensions

The Company provides pension benefits to its employees through two defined contribution Group personal pension plans: the Financial Objects Group Personal Pension Scheme with Sun Life and the IBIS Group Personal Pension Scheme with Scottish Provident (the "Scottish Provident Scheme"). The Scottish Provident Scheme is now closed to new members. The pension charge for the year was £457,000 (2000: £443,000). The amount accrued at the year end, and included in accruals and deferred income is £12,900 (2000: £41,000).

## 24. Cash flow statement

### (a) Reconciliation of operating profit/(loss) to operating cash flow

	2001 £000	2000 £000
Operating profit/(loss)	375	(1,683)
Depreciation and other amounts written off fixed assets	1,689	1,754
Net rental expense charged against provisions	(67)	(69)
(Profit)/loss on disposal of tangible fixed assets	(8)	10
Decrease/(increase) in debtors	2,146	(551)
(Decrease)/increase in creditors	(1,327)	422
Cash inflow/(outflow) from operating activities	2,808	(117)

### (b) Returns on investments and servicing of finance

	2001 £000	2000 £000
Interest received	767	875
Interest paid	(30)	(2)
Net cash inflow for returns on investments and servicing of finance	737	873

# Notes forming part of the Financial Statements continued

## 24. Cash flow statement continued

### (c) Capital expenditure

	2001 £000	2000 £000
Payments to acquire tangible fixed assets	(867)	(412)
Proceeds from sales of tangible fixed assets	18	—
Net cash outflow for capital expenditure	(849)	(412)

### (d) Acquisitions

	2001 £000	2000 £000
Final settlement for acquisition of GFS Ltd	—	(212)
Acquisition of the remaining 50% of 9000 Ltd	—	(209)
	—	(421)

### (e) Financing

	2001 £000	2000 £000
Issue of ordinary share capital for cash	150	88

### (f) Analysis of net funds

	At 1 January 2001 £000	Cash flow £000	At 31 December 2001 £000
Cash at bank and in hand	2,335	1,564	3,899
Short term cash deposits	11,500	150	11,650
	13,835	1,714	15,549

## 25. Financial instruments

On 31 December 2001, cash at bank and in hand amounted to £15,549,000 (2000: £13,835,000) and can be analysed into the following currencies and maturities.

	2001		
	Bank deposits (less than 3 months maturity) £000	Cash £000	Total £000
Sterling	11,650	3,401	15,051
US dollar	—	170	170
Other currencies	—	328	328
Total	11,650	3,899	15,549

	2000		
	Bank deposits (less than 3 months maturity) £000	Cash £000	Total £000
Sterling	11,500	2,061	13,561
US dollar	—	134	134
Other currencies	—	140	140
Total	11,500	2,335	13,835

Interest rates on all cash balances are variable based on LIBOR.

Surplus funds are placed on fixed term deposits of one to three months with a panel of clearing banks.

The Group has no undrawn committed banking facilities.

The Group transacts the substantial majority of its sales contracts in sterling, thus there are no material foreign currency exposures.

Treasury policies and procedures are regularly monitored by the Board and will be developed to respond to business requirements and risks.

The Group has taken advantage of the exemption under FRS 13 that short-term debtors and creditors be excluded from the above disclosures.

There is no difference between the book value and the fair value of the bank deposits.