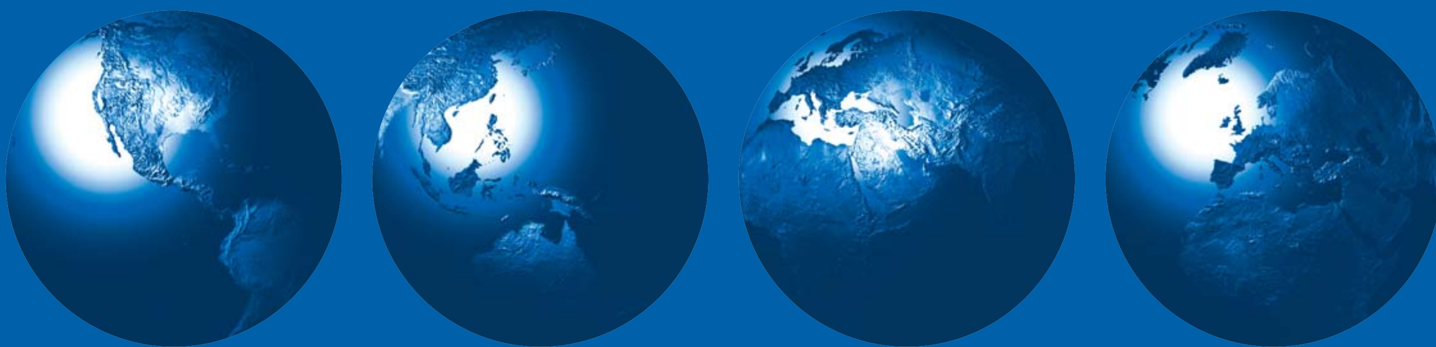
Systems Union Group plc

ANNUAL REPORT AND ACCOUNTS 2003



Systems Union

Systems Union Group plc is a **global software company,** quoted on the Alternative Investment Market (AIM) of the London Stock Exchange.

Our range of complementary services encompasses real-time **financial management** and extensive **business intelligence** software solutions that improve corporate efficiency.

We have a **clear, realistic and achievable** agenda and are committed to growth, organically and by acquisitions. We have the financial resources, global infrastructure and management team to meet these objectives.

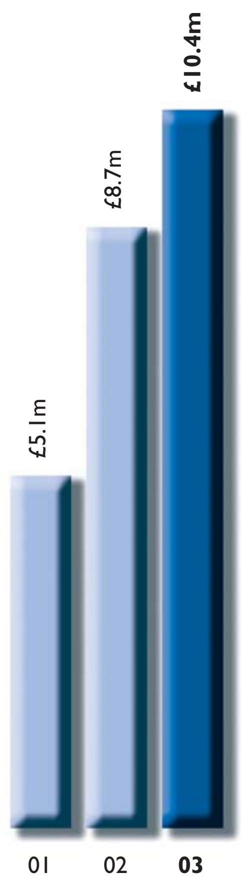
Contents

Financial Highlights

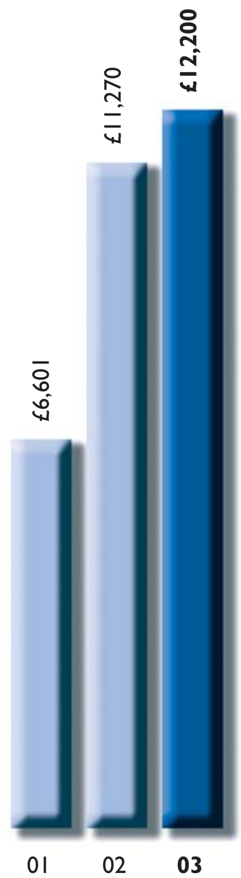
- Earnings per share* **8.5p**, up **19.7%**
- Revenue **£78.4 million**, up **5.1%**
- EBITDA **£10.4 million**, up **19.6%**
- EBITDA per person **£12,200**, up **8.2%**
- Profit before tax **£6.1 million**, up **41.9%**
- Cash **£19.6 million**; medium-term debt **£15.0 million**
- **1p** dividend proposed

Revenue increased by
5.1% to £78.4m

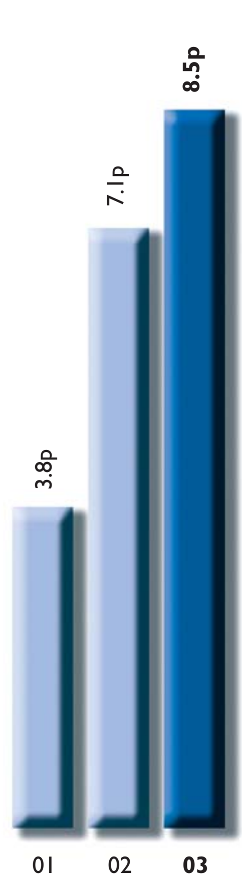
EBITDA rose by
19.6% to £10.4m



EBITDA per head up by
8.2% to £12,200



EPS* rose by
19.7% to 8.5p



* on a fully diluted basis – adjusted to exclude amortisation of goodwill and non-recurring items

Systems Union Group at a Glance

Systems Union Group plc has two operating divisions: Financial Management and Business Intelligence. The Financial Management Division comprises SunSystems, Pegasus Software, Foundation Systems and REDtechnology. MIS constitutes the newly formed Business Intelligence Division.

Financial Management Division

SunSystems financial & business management software solutions are used at over 18,000 customer sites in 194 countries. There are 24 SunSystems offices worldwide and a network of 200 channel partners in 71 countries. Available in 30 languages, SunSystems' customers include 45 of the world's 50 largest corporations, 75 of the FTSE100 and one quarter of the Fortune 500.

Pegasus Software is UK based and provides accounting & business software solutions to small and medium-sized enterprises (SMEs). The company has 30,000 customers and over 230 value-added-resellers. Its products include Opera II, Operations II, Payroll, Capital Gold and Pegasus Instant Messenger.

Foundation Systems is one of SunSystems' largest channel partners. It provides integrated financial & business solutions to over 450 mid-market organisations in the UK covering all aspects of business and commerce in the private and public sectors.

REDtechnology is a UK based Internet technology provider specialising in content management, dedicated server hosting, e-commerce development and Internet marketing.

Business Intelligence Division

More than 1,000 companies around the world use MIS business intelligence software solutions. Headquartered in Germany, MIS provides organisations with extensive planning, reporting and analysis capabilities enabling them to conduct business-critical activities ranging from real-time sales analysis and consolidation to risk management and long-term planning.

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

Pegasus Software	**Office location** Kettering	**Value-added-resellers** Primarily in the United Kingdom and Ireland

Foundation Systems	**Office location** London	

REDtechnology	**Office location** Oxford	**Partners** United Kingdom

MIS in EMEA (Europe, Middle East and Africa)	**Office locations** Darmstadt, Munich, Hamburg, Dusseldorf, Stuttgart, Berlin, Dresden, Prague, Vienna, Zurich, London and Milan	**Partners** France and Spain
MIS in The Americas		Brazil, Chile, Mexico, USA and Venezuela
MIS in Asia Pacific	Sydney	

An Interview with Paul Coleman

In the last Annual Report, Paul Coleman set out Systems Union's growth strategy in his Chief Executive Officer's Review. Since then, much progress has been made. He revisits those goals in this interview, reviews the notable successes and discusses the foundations that have been laid for the coming years.

"I do not believe there is another mid-market software company in the world that has our balance of financial management and business intelligence solutions under one roof."

How would you sum up 2003 for Systems Union?
Last year was the most successful for the Group since I became CEO. Not only did we further improve the profitability of our existing operations, but we also made significant progress with our acquisition strategy.

The financial stability and prosperity of the Group is still key. We reported our seventh consecutive half-year of meeting or exceeding market expectations. This is an achievement that few of our competitors can match.

The purchase of MIS is an important keystone for the future prosperity of the Group. Whilst our comprehensive portfolio of financial management solutions are world-class and remain central to the Company, the addition of a Business Intelligence Division means that we can offer complementary solutions to meet the strategic needs of our customers. I do not believe there is another mid-market software company in the world that has our balance of financial management and business intelligence solutions under one roof.

In addition we acquired Foundation Systems and Romanicus; both are SunSystems channel partners. These companies possess valuable expertise and customer relationships that will further strengthen the Group.

Last year you wrote that Systems Union 'now has a proven track record of improving financial performance'. Has this continued in 2003?
Absolutely. Even though revenues for the existing group were down 7.1 per cent, by controlling costs we have been able to increase our profitability and divert funds into investment for growth. As a result, we are financially strong with a comprehensive portfolio of software solutions to offer. We can now grow Systems Union, both organically and by further acquisitions. We intend getting more throughput for our global infrastructure. These measures should hopefully improve our rating on the Stock Market and our overall capital value.

In 2003, our EBITDA margin was 13.2 per cent compared to 11.6 per cent in the previous year. We will continue to improve on this, both in the existing businesses and the recent acquisitions.

Revenues for existing operations remain under pressure. What steps are you taking, Paul, to enhance organic growth?
My ambition is for Systems Union to 'own the middle of the boardroom table'. By that I mean we must address the information needs of all directors, not just the CFO, who has been our main target in the past.

We have upped our game with an exciting set of products. By investing in product R&D, launching new alliances, and continuing to focus on strong account management, we have improved our position in the marketplace, and look forward to enjoying greater benefits when the economic upturn arrives.

You have spotlighted the pre-eminence of your core financial products combined with the delivery of additional complementary products. Could you expand on this?
The finance discipline is the foundation of our solutions. Collection, processing and reporting of accurate financial information is a prerequisite for any successful business. Not only do we have the products to satisfy these demands but we have also built a suite of complementary solutions to further assist the finance department; this includes portals to access information remotely, effective debtor management, project specific accounting for time and billing, and payroll. In 2003 we added a world beating set of analytics, business intelligence and reporting solutions to our portfolio.

The combination of our financial management and business intelligence solutions will enable finance departments to add value proactively to their organisations rather than merely being considered as a reactive administration overhead. This sea change will enable companies to understand more effectively their financial health and assess future opportunities more dynamically than in the past.

Last year you discussed the significance of your worldwide vertical markets and your global network of strategic vertical partners. Are these aspects still important?
Of course. Our SunSystems solution is appropriate for a diverse range of organisations and market sectors. So far, we have focused on four verticals: hotels, oil & gas, insurance and not-for-profit. In 2003, we released further functionality such as the SunSystems Application Portal and we entered into a number of new strategic alliances. Indeed, in June we announced an alliance with MAPICS, one of the leading solution providers for global manufacturers.

Globalisation is crucial to success today; can you tell us about the strength of SUG's global footprint?
We now have 40 offices worldwide. In addition we have 230 Pegasus value-added-resellers, 200 SunSystems channel partners and 8 MIS partners in 72 countries giving us considerable global coverage.

So we are a truly global organisation with an expanding network and can offer our customers a level of consistency in terms of solution and service. Our multi-lingual, multi-currency, multi-GAAP software is backed by extensive local knowledge and comprehensive support.

The combination of an enhanced product portfolio and our extensive distribution network provides us with a very solid basis for future growth. And we have started to roll out Pegasus software internationally to increase its global presence and market reach.

The Shanghai and Dubai offices are now open. Why are these so significant?
Both locations are emerging markets that are enjoying rapid growth and investment. Leading analyst IDC has reported that the financial software market in China has grown at an annual growth rate of 30 per cent per annum in the past five years. Combine this with the rising demand for ERP solutions and it is clear why we felt it was important for us to have a significant local presence in China.

Today, Shanghai is not only our largest overseas office but also our second largest global hub for R&D and international support enabling cost effective delivery of products. The teams there and at Farnborough are working in unison to produce global solutions for our customers.

Dubai is a major gateway into the Middle East. There is considerable investment in the region in the hotel, financial services and oil & gas sectors. These are three of SunSystems' strongest vertical markets.

Will you be continuing with your acquisition strategy?
Yes, very much so. With our financial resources and improving performance, I believe there is considerable scope for the Group to make further strategic acquisitions as opportunities arise.

Our focus will be to acquire competitors as well as companies that strengthen our position in vertical markets or organisations that will enhance our global reach.

You invested greatly in your global communications systems in 2003. Why is this important?
We now offer 24x5 global support through our network of consultants, analysts and help desks. To support this more personalised service we also offer extensive online support with call logging and tracking facilities, information repositories and support resources for customers and partners.

As a result of this investment in our support infrastructure, our customers can now be confident that, irrespective of their location, issues will be addressed rapidly and efficiently.

You mention partners. Will your acquisition of two resellers change things?
Our channel partners are crucial to us. They possess valuable experience and understanding of user needs. We are committed to our partners and to working with them to further strengthen our global footprint and to extend our market reach into new and emerging market sectors.

The purchase of Foundation and Romanicus does not change this.

And finally, Paul, do you feel confident about the future?
Yes, but we are never over-confident. With our ever strengthening product portfolio, our technical expertise and our people, I am confident that we have the foundation stones in place to underscore our continuing success.

"With our financial resources and improving performance, there is considerable scope for the Group to make further acquisitions."

Chairman's Statement

Systems Union made considerable progress in 2003. Through acquisitions, a realistic growth strategy and continuing focus on costs, the profitability of the Group was increased. As a result, an inaugural dividend has been proposed. Building on these foundations the outlook for next year is positive.

I am pleased to report that 2003 has proved to be another record year. We have greatly enhanced our product offering and utilisation of resources, thereby enabling the Company to report improved results. Systems Union successfully completed much of the agenda it had set itself at the beginning of the year: a considerable achievement in the present economic environment.

It is particularly encouraging to note that the Company was able to embark on its previously stated acquisition strategy without the requirement for further shareholders' funds. During the second half of the year we invested £27.0 million in four acquisitions, the major one being MIS, which specialises in business intelligence software solutions. These acquisitions will progressively add significant benefits to the Group in the coming years.

Results

Earnings before interest, tax, depreciation and amortisation of intangibles (EBITDA) grew by 19.6 per cent to £10.4 million (2002: £8.7 million), and revenues increased to £78.4 million (2002: £74.6 million). The results are most satisfactory, despite a decline in revenue from existing operations to £69.4 million (2002: £74.6 million), due partially to the elimination of low margin revenue.

Net profit after tax was £5.7 million (2002: £3.9 million), an increase of 44.2 per cent. Adjusted earnings per share increased by 19.7 per cent to 8.5 pence. The balance sheet remains strong with cash and the investment in our own shares of £25.9 million. Whilst the Company took on bank debt of £15.0 million to assist with financing the acquisition of MIS, we remain well placed to make further acquisitions as opportunities present themselves.

Dividend

The Board is pleased to announce that it is proposing the payment of an inaugural dividend of 1p. Payment will be made on 27 May 2004 to shareholders on the register on 30 April 2004.

Outlook

With the improving profitability of the existing Financial Management Division and the addition of our new Business Intelligence Division, created by the acquisition of MIS, the Group now has a very solid and comprehensive base on which to grow. We are optimistic about our prospects for the future and expect the year ahead to reflect the impact that the enlarged Group will have in our marketplace.

Bob Morton
Chairman

1 March 2004

Global Scale, Global Reach, Global Solutions

Systems Union's goal is to be global on three levels: scale, reach and solutions.

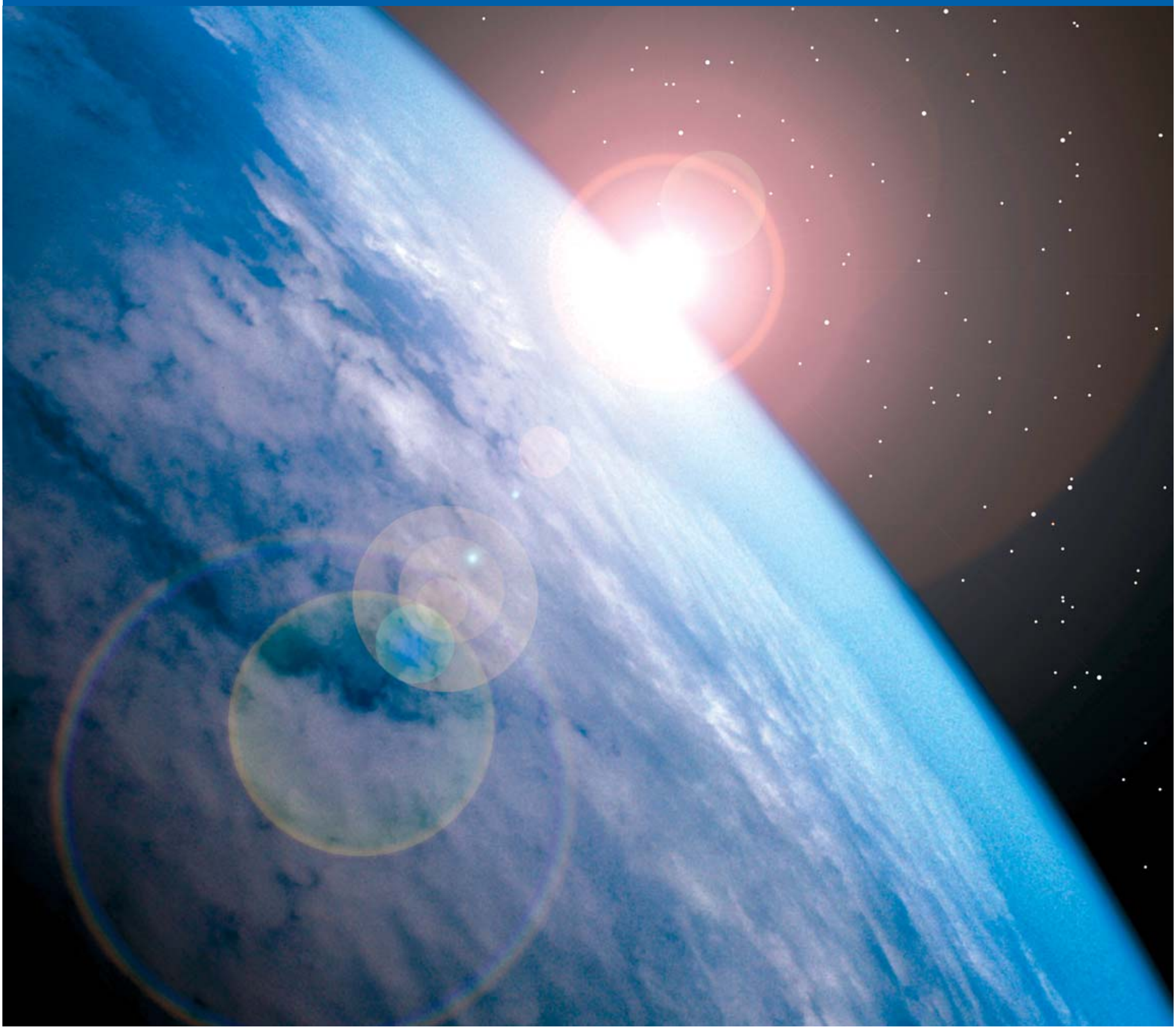
Global scale. With annualised revenues of approximately US$200 million presently, Systems Union aims to become a US$250 million revenue business in the short-term and then towards US$500 million in the medium/long term. At this scale, and above, the Company can fully maximise the opportunities generated by the investment in its global network. The benefit of this is the capability to offer a wider range of product offerings, attract leading collaboration partners and provide solutions throughout all subsidiaries of major corporations.

Global reach. By adding MIS, Foundation Systems, Romanicus and the remaining 50 per cent of the Italian joint venture to the Group, Systems Union now has 40 offices around the world. When combined with the global network of partners, the Group is represented across all countries and territories. It is thought that this makes it the only truly global provider of financial management and business intelligence solutions to the mid-market today.

Global solutions. Systems Union offers its customers and partners a uniquely comprehensive and cost effective portfolio of solutions that address the needs of today's organisation for business, financial and management information. This results from its investment in research & development, its extensive market awareness and its strategy for planned growth, both organically and by acquisition.

Remaining at the forefront of technological advancement ensures that Systems Union provides functionally rich, secure, scalable and e-enabled solutions that can be supported from any location around the world and across a variety of platforms and operating systems.

Systems Union's users can source solutions that accurately and effectively record and process complex financial and business transactions in different currencies and languages, analyse business performance and generate enterprise-wide business intelligence. The result is enhancement in the strategic decision-making process and ultimately profitability while ensuring that companies comply with today's increasingly stringent global regulatory and reporting requirements.



Chief Executive Officer's Review

The existing businesses of Systems Union made progress despite tough trading conditions. With the newly acquired companies, annualised revenues now exceed US$200 million. On-going product development, new alliances and partnerships have resulted in further new business wins, globally.

Major highlights of 2003:

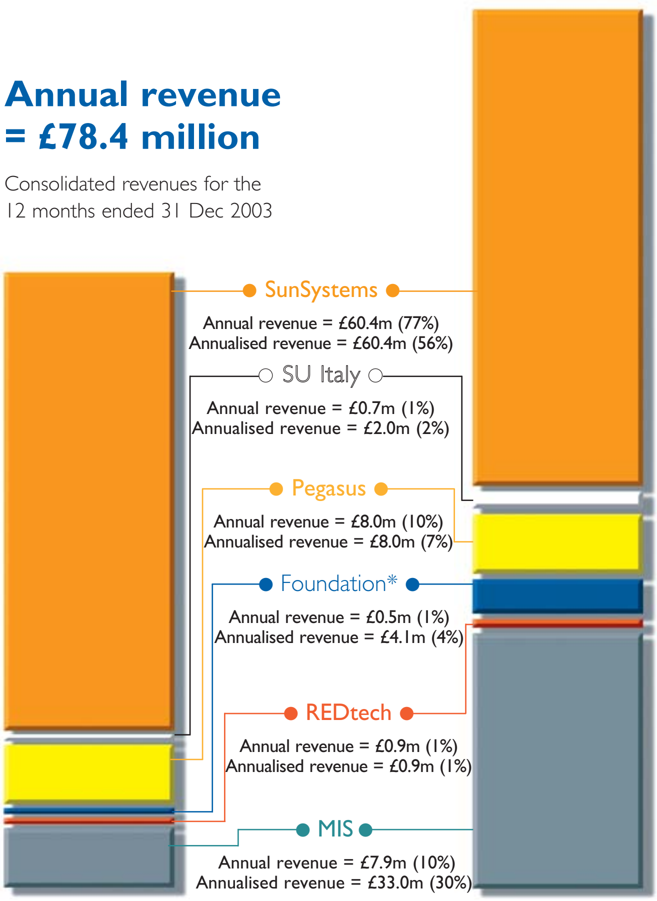
- Results better than market expectations; seventh consecutive half-year in line or better than expected
- Adjusted earnings per share rose by 19.7 per cent to 8.5p (2002: 7.1p)
- Basic earnings per share grew by 42.1 per cent to 5.4p (2002: 3.8p)
- Revenue increased by 5.1 per cent to £78.4 million (2002: £74.6 million)
- EBITDA grew by 19.6 per cent to £10.4 million (2002: £8.7 million)
- EBITDA per person increased by 8.2 per cent to £12,200 (2002: £11,300)
- Profit before tax increased by 41.9 per cent to £6.1 million (2002: £4.3 million)
- Cash of £19.6 million (2002: £18.9 million); £15.0 million in medium-term debt (2002: nil)
- Inaugural dividend of 1p proposed
- Business Intelligence Division created following acquisition of MIS
- As a result of acquisitions, annualised revenues were £108.4 million, an increase of 56.2 per cent to existing operations

Annualised revenue = £108.4 million

Unconsolidated revenues for the 12 months ended 31 Dec 2003

Annual revenue = £78.4 million

Consolidated revenues for the 12 months ended 31 Dec 2003



* incremental revenue

The Company made significant progress in 2003 despite very difficult market conditions. Whilst revenues were down 7.1 per cent in the existing Financial Management Division, consistent with much of the sector, we have continued to improve profitability due to cost control measures implemented in 2002 and during the course of the year.

On the acquisition front, we added MIS to the Group to form the new Business Intelligence Division. Our entry into business intelligence (BI) is one of the most significant moves we have made and, for the first time, enables us to provide forward thinking solutions to both finance departments and the board of directors as a whole.

Now we can provide enterprises, multinational and domestic companies and small businesses with solid financial data, information and reports quickly and efficiently from solutions provided by our Financial Management Division. This, together with the expertise and products of our Business Intelligence Division, enables our customers to plan, control, operate, evaluate risks and consolidate. This is an unparalleled and comprehensive proposition to our customers, globally.

Additionally, two SunSystems channel partners, UK based Foundation Systems and Far East based Romanicus Computer Services, became part of the Group. Foundation will operate as a separate subsidiary within the Group. Four operating offices of Romanicus have been absorbed into the SunSystems operations in Asia Pacific. We also purchased the remaining 50 per cent of our Italian joint venture, bringing that company fully into the Group.

Financial Review

Group turnover of £78.4 million was 5.1 per cent higher than 2002. 2003 includes £9.1 million from acquisitions during the year. Turnover from continuing operations of £69.4 million was lower than the previous year by 7.1 per cent. The aggregated full year revenues for the enlarged Group amounted to £108.4 million, approximately US$200 million. Therefore, in revenue terms, the size of the Group increased by 56.2 per cent when compared to existing operations.

Pegasus had a particularly pleasing year, increasing its revenues by 10.4 per cent to £8.0 million and considerably improving its EBITDA margin. SunSystems revenues declined by 9.1 per cent to £60.4 million from £66.5 million. This reduction was the result of SARS, uncertainty caused by the Iraq War and the non-replacement of some lower margin consulting work, primarily in the USA and Europe. Nonetheless, EBITDA in SunSystems improved by 8.9 per cent.

Across the Group, licence revenues declined by 10.2 per cent to £24.0 million. However, this is more than offset by an increase of 15.8 per cent in professional services to £18.8 million and an increase in maintenance revenue of 12.5 per cent to £35.7 million.

Against the background of pressure on revenues, the Group has continued to focus on cost control. Operating costs, including research & development, for

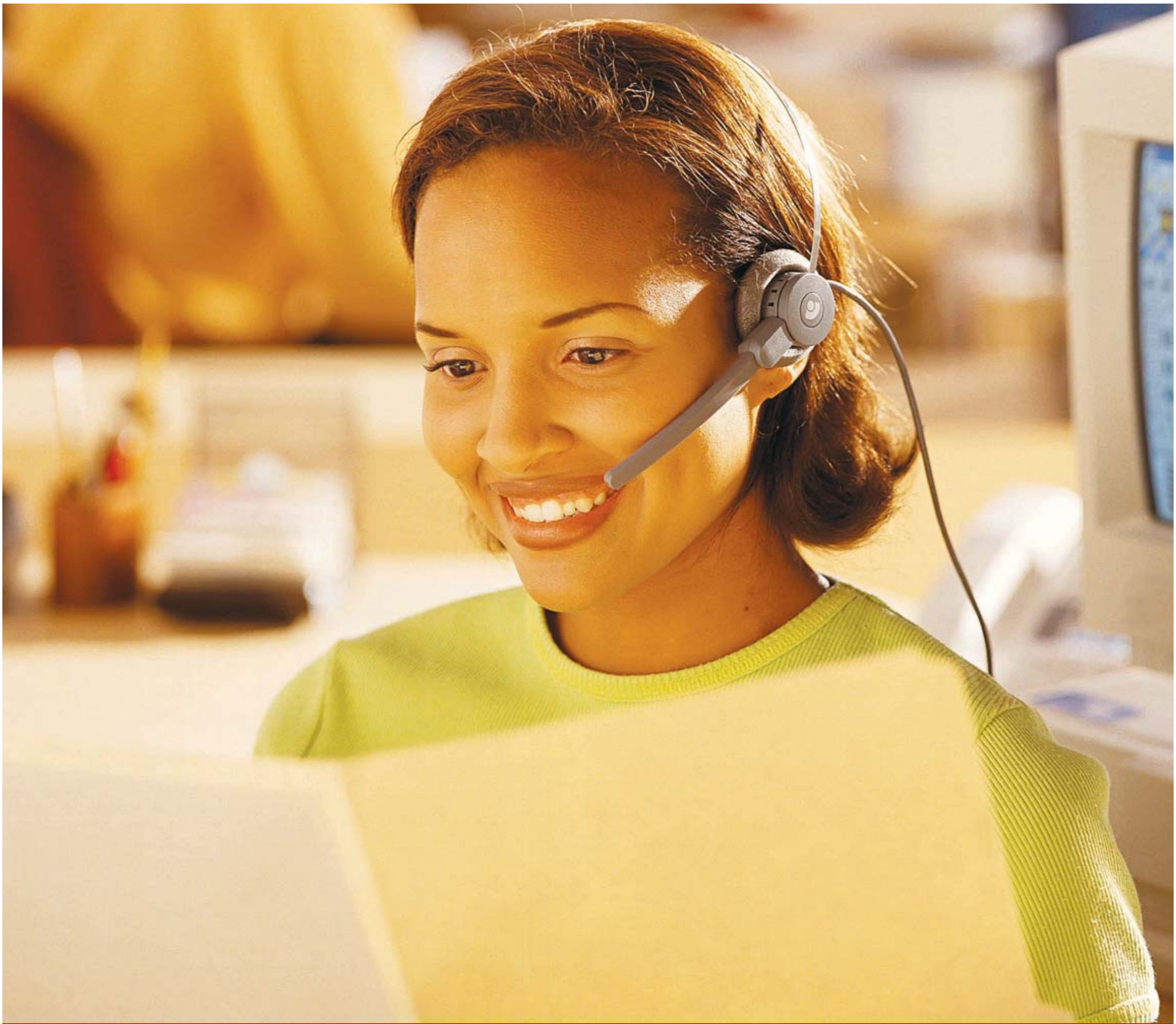
SunSystems

In keeping with the Group's objective of 'owning the middle of the boardroom table', the spectrum of SunSystems financial & business management software solutions has widened. In addition to meeting the needs of CFOs, who remain vitally important to the business, new products have been released and alliances launched to meet the needs of other senior executives at customer companies. A significant investment has been made in research & development to ensure SunSystems remains at the forefront of technological advancement, globally, delivering comprehensive and functionally rich solutions that address customer needs, rapidly and cost effectively.

The core financial products, SunSystems 4 and SunSystems 5, are continually enhanced to keep pace with available technology, customers' changing demands and the evolving regulatory environment. The addition of business intelligence and pan-application reporting and analysis capabilities significantly differentiates SunSystems from the majority of its rivals. These products can make customers' finance departments proactive and value-add functions.

In addition, SunSystems has further strengthened its vertical propositions with the launch of application portals for the insurance and hospitality sectors. For the first time, users can benefit from a web-enabled solution that provides pre-configured key performance indicators and management report processes that meet the needs of specific vertical market segments. The SunSystems solution ensures that the right information is available in a consistent and relevant format enabling management to enhance the decision-making process and increase the timeliness, quality, accuracy and transparency of financial and business information generated across the enterprise.

Through its network of partners and offices, SunSystems secured contracts with several new names including Shell Gas (LPG), Shanghai American School and Ritz-Carlton. These relationships, along with the existing 18,000 customer sites that use SunSystems' solutions, demonstrate that it is the reliable choice for organisations looking for a financial & business management solution that combines a proven track record, a low total cost of ownership, low risk and a global support network.



Pegasus Software

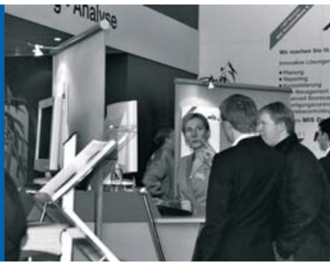
Pegasus is committed to the provision of service and solution excellence and this was recognised in May 2003, when the company received a prestigious Special Achievement Award from the Help Desk Institute. The HDI was so impressed by the quality of the support services offered by Pegasus to its partners and customers that it made this award to the team.

In launching its Certified Partner Programme in June 2003, Pegasus demonstrated its ongoing commitment to its 230 strong reseller channel. The initiative has been designed to encourage, recognise and reward the highest levels of commitment, focus and professionalism shown by the channel and will provide resellers with a raft of benefits that are designed to build on the strengths of the Pegasus brand, open up new opportunities and provide additional resources to aid the sales and marketing efforts of each reseller. This initiative has been complemented by the introduction of the Pegasus Payroll Centres of Excellence scheme, which will provide customers with extra reassurance that their payroll solution is being installed and deployed by accredited individuals possessing unparalleled technical and commercial knowledge of the product, a comprehensive understanding of the dynamics of the payroll sector and the changing regulations governing it. In December 2003, this excellence was rewarded further when Pegasus Payroll received accreditation from the Inland Revenue.

Pegasus remains the largest supplier of modular accounting systems for SMEs in the UK. In an independent customer satisfaction survey* that covered all its main rivals, Pegasus came out top with high scores for both software and support.

*Source: IT Zone Survey, Spring 2003 by accountingweb.co.uk

Chief Executive Officer's Review

existing operations were lowered by 9.5 per cent to £59.7 million, a reduction of £6.3 million. These efficiency measures resulted in the EBITDA margin on sales increasing to 14.0 per cent in 2003 (2002: 11.6 per cent).

The acquisitions in the fourth quarter made a positive contribution to the Group with an additional £9.1 million of revenues and £0.7 million in EBITDA. The overall EBITDA margin for the Group was 13.2 per cent.

In December 2003, the Group sold its remaining investment in an activity discontinued three years earlier for £500,000 in cash. The carrying value was nil and the resulting profit is shown as 'Profit on sale of fixed asset investment' in the Consolidated Profit & Loss Account.

Group profit before taxation increased by 41.9 per cent to £6.1 million.

The Group's low tax rate reflects the benefit of corporate tax losses brought forward.

Cash balances at 31 December 2003 were £19.6 million (2002: £18.9 million) and the Group had medium-term bank debt of £15.0 million, which was taken out partly to finance the acquisition of MIS. Cash flow from operating activities increased by 55.6 per cent to £7.9 million. During 2003, the Group spent £21.1 million on acquisitions, net of cash in the acquired businesses. In accordance with UITF 37, the Group's investment in 9 million of its own shares, which is carried at £6.3 million, has been shown as a deduction from shareholders' funds at 31 December 2003 and the corresponding amounts for 2002 have been restated.

The directors are proposing a dividend of 1p per share in respect of 2003, which will absorb cash of £1.05 million.

Operational Review

The Group now comprises two operating divisions. The existing businesses of SunSystems, Pegasus and REDtechnology, together with Foundation, are within the Financial Management Division. The newly created Business Intelligence Division comprises MIS.

Financial Management Division

SunSystems

With lower overall revenues due to the on-going adverse economic climate, SunSystems generated improved profitability as a direct result of further cost constraint and delivered further enhancements to its product portfolio as well as extending its product range.

SunSystems is firmly established as a global brand and leader in the provision of world-class financial management software solutions in the mid-tier sector. We regularly compete successfully with the large enterprise resource planning (ERP) vendors. For example, BP Poland, in considering a solution for Castrol Poland, established that the payback on SunSystems would be nine months, compared with over two years with a rival ERP vendor.

Sales of the core products, SunSystems 4 and SunSystems 5, continued well particularly when combined with add-on modules, alliances and extra functionality. Alliances with software vendors such as MAPICS, a world leader in manufacturing solutions; MICROS-Fidelio, world leader in front-office systems for hotels; and MRO Software, a leading provider of solutions for strategic asset management, all yielded encouraging results.

In hospitality, a multi-user system was purchased in a £875,000 deal for use across several European countries. In one Middle Eastern country, an existing global customer is replacing a major ERP vendor with a SunSystems solution for £294,000.

One of the world's largest parcel services companies installed a system for £715,000. Several insurance companies added SunSystems solutions, including some significant new names in The Americas, emphasising the Company's dominant position in this sector in Latin America.

In Asia Pacific, opportunities in China continue to be pursued. In addition to offices in Beijing, Shanghai and Hong Kong, opportunities in secondary cities are being investigated to add to the substantial existing Chinese customer base. Elsewhere in the region, plans are well in hand to open an office in Bangkok, Thailand in 2004.

Intensive training of SunSystems' and channel partners' staff continues around the world, notably in Africa. All conferences, seminars and training sessions are well attended and ensure that customers remain up-to-date with the latest available functionality.

Product development

A range of new accountancy rules, regulations and legislation, together with the mounting need for better financial visibility due to the on-going poor economic environment and the need to restore stakeholder confidence in corporate results, have been major drivers in the development of SunSystems software solutions. The result has been the launch of new products, upgrades and alliances to augment the existing product range.

The core financial management offerings, SunSystems 4 and SunSystems 5, have continued to be enhanced, not least to meet the needs of vertical markets. SunSystems 5, for example, can now handle four currencies simultaneously and has functionality that will benefit insurance, distribution and many other sectors. The user interface of SunSystems 4 has been enhanced and tax-handling protocols, required in certain countries and industries, have been incorporated. This policy of continual improvement for both solutions is testament to our commitment to the longevity of these products and the objective of ensuring both continue to meet customers' changing business needs.

SunSystems business intelligence and analytics have been strengthened considerably, particularly following Systems Union's acquisition of MIS. As a result, SunSystems Enterprise & Corporate Planning, SunSystems Consolidation and SunSystems Subsidiary Management will be launched in 2004. These three solutions, based on MIS technology, provide important

Chief Executive Officer's Review

additions to the existing spectrum of applications and give the means for senior executives to plan for the future with a higher degree of accuracy. Licensing agreements for SunSystems Vision and SunSystems Report Server, which are both externally-authored reporting tools, have been extended and enhanced to permit reporting from other business applications as well as from SunSystems. We believe no other mid-market vendor, globally, can match this balance of world-class financial management solutions and business intelligence applications.

In keeping with Systems Union's long-stated ambition to 'own the middle of the boardroom table' by offering solutions to meet the business needs of all directors, further enhancements were released including new alliances. The latest version of SunSystems Purchase Requisitioning was the first product fully created in Shanghai. SunSystems PSA provides project specific accounting, such as time and billing for professional services, and now includes front to back office integration.

In addition, a range of strategic vertical partners in manufacturing, fashion, construction, printing and hospitality complements these SunSystems solutions.

By including Pegasus products under the SunSystems brand in Asia Pacific, a wider spread of companies, by size, can be targeted. In the first instance, versions of Opera II, the flagship financial management solution, will be rolled out.

Support & services

The provision of superior standards of support for all SunSystems customers remains paramount. We are committed to empowering users with real-time, personalised support through a network of global helpdesks, local language capabilities, extensive business knowledge and superior product expertise.

The SunSystems support team is focused within a Supercentre at Farnborough backed by a global network of helpdesks including the planned Regional Support Centre in Shanghai. All customers are routed through one global IP telephony system and one networked database. Consultants at any location can be sure that they have access to the most up-to-date record of the status of a customer call and can address the user's needs with the utmost efficiency and timeliness.

In addition, users can receive support using an intuitive web-based call logging service, and all customers have access to Knowledgebase, a searchable database of their past calls and problem resolution. In essence, we can provide tiered support and options that meet the exact needs of our expanding user base.

Pegasus Software

In 2003, Pegasus embarked on a major project to up-rate the functionality of its flagship product, Opera II. The success of the work was demonstrated by significant increases in Opera II licence and maintenance revenues during the year. This contributed towards an increase in revenue and profitability across the business.

The product range went through a series of enhancements, which were all delivered on time and within budget. The Advanced Nominal Ledger for Opera II was unveiled in March and provides customers with considerably enhanced analysis options. Pegasus XRL, an analytics and reporting module, has been very well received in the market and sales have been strong. Demonstrating its capacity for innovation, Pegasus Instant Messenger was launched in September. This enhancement provides real-time alerts in pop-up windows. We believe that this is the first time Instant Messenger communications have been used to deliver business critical information to SMEs in this way.

Pegasus users can be confident that the available technology is robust and reliable. This is due to a proactive programme to promptly address issues within the Opera software, based on zero-tolerance, that has yielded levels of stability which are seldom seen in the software industry. It is backed by enhanced technical support, which uses web-based systems to maximise efficiency. Customer satisfaction remained above 95 per cent throughout the year.

In May, Pegasus launched a Certified Partner Programme designed to enhance the value proposition offered to end-users. The scheme has already generated a very positive response in the partner community and at the end of 2003, the number of Gold Partners stood at 12.

Foundation Systems

On 5 December 2003, Systems Union further delivered on its growth strategy with the acquisition of Foundation Systems. The company is a leading UK value-added-reseller of SunSystems and other business software solutions. With an impressive customer base, strong brand image, a reputation for delivering high added value solutions to mid-market customers, considerable SunSystems expertise and a strong portfolio of complementary solutions, the addition of Foundation to the Group will provide opportunity for further growth.

REDtechnology

Red is an Internet consultancy that specialises in web design, dedicated hosting services, content management and e-commerce solutions.

In 2003, Red became a software vendor with the successful launch of its own suite of content and document management systems. These enable customers to use the Internet much more effectively.

Business Intelligence Division

MIS

On 10 October 2003, Systems Union announced that it had reached an agreement to make an offer to acquire MIS, a leading provider of business intelligence software solutions for a total consideration of £23.7 million. At that time, the Company had received irrevocable acceptances for 50.7 per cent of the MIS shares. By 31 December 2003, this share ownership had risen to 93.6 per cent.

Foundation Systems

A significant value-added-reseller in the UK, specialising in delivering best of breed advanced financial & business management solutions based around the SunSystems portfolio, Foundation Systems was acquired by Systems Union in December 2003. The company will operate as a separate subsidiary of the Group within the Financial Management Division.

Foundation has a diverse customer base of 450 organisations who benefit from its expertise in the selection and deployment of financial, customer relationship management, professional services automation, payroll, human resource management and e-procurement solutions.

Despite the continued downturn in the IT services marketplace Foundation further strengthened its position in 2003 through the generation of over 600 software orders, 29 new business contracts for SunSystems and over 1,900 days of consultancy.

REDtechnology

The Internet is increasingly important in today's business world and Red is a specialist web services company that is focused on harnessing the power of the web to benefit its expanding user base of over 300 UK customers.

In 2003 Red launched three new solutions, ConductIT, FileIT and PromoteIT, all designed as valuable business and management tools. The solutions ensure that businesses can use more effectively the Internet to reach their target audiences, efficiently develop and evaluate e-enabled sales and marketing campaigns and enhance the document management process using the latest web-based filing systems.

Red had a successful 2003 securing contracts with organisations including the Department of Trade & Industry, Stockport Youth Council and Bridisco, the UK's largest independent electrical distributor, where it provided a range of its content management and hosting systems.

MIS

Business intelligence is a major growth sector within the Enterprise Application marketplace as the need for comprehensive planning, forecasting and budgeting capabilities becomes paramount. Increasingly stringent reporting regulations and accounting standards such as the International Financial Reporting Standards (IFRS), the requirement for improved levels of accuracy and transparency of data, and the need to be able to rapidly extract and analyse enterprise-wide information in a consistent and unified view are placing significant pressure on today's finance department. The result is that CFOs are demanding comprehensive technological solutions that provide both rapid access to core financial data, and advanced business intelligence solutions that facilitate a more proactive approach to the information generated by business divisions.

Founded in 1988 and headquartered in Germany, MIS is one of the world's leading providers of these business intelligence and analytical solutions. It gained recognition from Deloitte & Touche in 2003 when it was named as one of its Fast 50 in Germany. This prestigious award is given to those organisations that demonstrate consistently high performance and growth rates over the previous five years. The company has over 460 staff working in its network of subsidiaries and representative offices.

Financially, MIS generated revenues of £33 million in 2003 and continued to deliver its portfolio of BI solutions, adding to its global community of 23,000 users across a diverse range of mid-market and large organisations around the world.

Chief Executive Officer's Review


MIS enables companies to enhance business performance through customised planning, reporting and analysis solutions. More than 23,000 users in 1,000 companies around the world use its software for business-critical initiatives ranging from real-time sales analysis and consolidation to risk management and long-term planning.

The product range includes MIS DecisionWare, the company's proven software platform for planning, reporting and analysis. Its strengths include speed of implementation and intuitive features and terminology. MIS Zeus is a fully Web-enabled financial consolidation solution. MIS Plain is an analytic tool that enables direct access to data via a spreadsheet front end.

In September 2003, industry analyst AMR Research estimated that the global BI market would be worth £6 billion by 2007, growing at a compound annual growth rate (CAGR) of 7 per cent. IDC, in May 2003, predicted CAGR of 8.8 per cent over the same period. Key drivers resulting in these projected high growth rates include economic pressures on senior executives to produce more accurate financial forecasts, accelerating financial reporting cycles and a demand to maximise shareholder value.

The move by Systems Union into the BI space, complementing the existing financial management solutions, provides the Group with excellent growth opportunities. MIS was identified as being an attractive addition to the Group because of its powerful solution portfolio, impressive brand equity in the BI market, strong customer base and complementary market positioning.

Staff

As a result of the acquisition activities in 2003, a further 530 people joined the Group. Not only do I welcome them to the global Systems Union *HomeTeam*, but I am also greatly encouraged for the future by the new skills, knowledge and experience we now have in the Group. Globally, there is a spirit of dedication and purpose throughout the Company.

I would like to take this opportunity to thank all members of staff – old and new – for their hard work, commitment and significant contribution towards the growth of Systems Union.

The future

In a changing world, it is always difficult to predict the future. At Systems Union Group plc, we have endured much in the past four years and due to the combined efforts of all concerned we are financially strong with a powerful agenda to help our global customers report and plan their corporate futures.

Whilst never complacent, we believe that we have the pieces in place for continued success.

Paul Coleman
Chief Executive Officer

1 March 2004

Directors and Advisers

Directors	A L R Morton	(Non-executive Chairman)
	P J Coleman	(Chief Executive Officer)
	A C S Sweet	(Chief Financial Officer)
	J L Pemberton	(Non-executive Director)

Company Secretary
P G Larking

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

Registered No: 2735281

Nominated Adviser
WestLB AG
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

Joint Nominated Broker
Panmure Gordon
(a division of Lazard & Co. Limited)
50 Stratton Street
London W1J 8LL

Joint Nominated Broker
KBC Peel Hunt Ltd
111 Old Broad Street
London EC2N 1PH

Auditors
KPMG Audit Plc
Arlington Business Park
Theale, Reading RG7 4SD

Solicitors
Allen & Overy
One New Change
London EC4M 9QQ

Bankers
Barclays Bank plc
54 Lombard Street
London EC3V 9EX

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham, Kent BR3 4TU

Directors' Report

The directors present their Annual Report together with the audited consolidated financial statements for the year ended 31 December 2003.

Principal activities and business review

The Group operates through a Financial Management Division and a Business Intelligence Division. The principal activity of the Financial Management Division is the design, development, production and distribution of financial and business software, sold under the SunSystems and Pegasus brands to international and domestic markets. E-commerce, Internet hosting and support services are sold through REDtechnology. The principal activity of the Business Intelligence Division is the design, development and distribution of business software used for planning, forecasting and analytical purposes sold under the MIS brand.

A review of the Group's operations is included within the Chief Executive Officer's Review on pages 8 to 15. The chairman comments on the results in his statement on page 6 of the report.

Financial results and dividends

Details of the results for the year ended 31 December 2003 are set out on pages 24 to 43 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 £78,427,000 (2002: £74,631,000) and profit after taxation was £5,672,000 (2002: £3,933,000).

The directors are proposing a final dividend of 1p per share payable on 27 May 2004 to shareholders on the register on 30 April 2004. There was no interim dividend paid during the year and no dividends were paid in 2002.

Product development

Expenditure on research & development was £10,924,000 (2002: £10,544,000). The Company continues to attach considerable importance to the updating of its products, either by internal development or the purchase of external software products where this is more appropriate.

Directors and their interests

The directors who have served during the year are:

A L R Morton

P J Coleman

A C S Sweet

J L Pemberton

Bob Morton (62) 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 and Clarity Commerce Solutions plc. He is also chairman of Vislink plc, MacLellan Group plc and Armour Group plc.

Paul Coleman (52) has over 35 years experience with wide ranging knowledge of a number of industries both in the UK and internationally. Prior to joining the Systems Union Group in 2000, he was the group finance director and investment analyst at the Carlisle Group plc and European finance director at the international security company ADT Group plc.

Tony Sweet (49) was a partner at PricewaterhouseCoopers. He has experience as an audit partner and on mergers & acquisitions in the UK and Europe.

John Pemberton (55) 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 financial & business 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 2003 5p ordinary shares	At 1 January 2003 5p ordinary shares
A L R Morton	**10,860,520**	10,860,520
P J Coleman	**150,000**	150,000
A C S Sweet	**10,000**	10,000
J L Pemberton	**4,846,308**	4,846,308

A L R Morton retires from the Board in accordance with the Company's Articles of Association and offers himself for re-election.

Directors' Report

Substantial shareholdings

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

	Number of shares	Percentage of share capital
Artemis Unit Trust Management Limited	12,885,000	12.22
M & G Investment Management Limited	10,303,382	9.78
Jupiter Asset Management Limited	6,561,840	6.23
ISIS Asset Management Limited	5,023,728	4.77
Henderson Global Investors Limited	4,636,562	4.40

The Company has an interest in 9 million shares which are held in trust for the benefit of the Group. This holding represents 8.54 per cent of the current issued share capital of the Company.

Acquisitions and disposals

On 23 September 2003 Systems Union Holdings Limited acquired the remaining share capital of its joint venture subsidiary, Systems Union S.p.A, from its partner in Italy, Information Technology Services S.A. The consideration, including acquisition costs, was £2,157,000 paid in cash.

On 10 October 2003 the Company announced that it had reached agreement to purchase MIS AG, a leading provider of business intelligence software solutions, quoted on the Frankfurt Stock Exchange. The consideration, including acquisition costs, of £24,616,000 was financed from internal cash resources, together with a new borrowing facility of £15.0 million. The offer closed on 18 December 2003 and as at 31 December 2003 the Company had acquired 93.6 per cent of MIS AG shares.

On 5 December 2003 the Company announced the acquisition of Foundation Systems Limited. Foundation Systems is a leading value-added-reseller of business & accounting software solutions based in the UK. The total consideration, including acquisition costs and the assumption of liabilities, was £2,573,000, payable in cash.

On 23 December 2003 the Company sold its entire shareholding in Avorta Limited to Intelliplus Group plc for a cash consideration of £500,000.

On 31 December 2003 our subsidiary company based in Hong Kong, Systems Union Limited, purchased the business agreements of Romanicus Computer Services Limited for an initial consideration of £165,000 payable in cash. Approximately £335,000 further consideration will become due in the future as customer maintenance agreements are renewed.

Employees

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

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

Payment of suppliers

The Group 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 2003 was 42 (31 December 2002: 39 days).

Donations

There were no political donations during the year. Donations of a charitable nature amounted to £5,010 (2002: £3,753).

Directors' Report

Annual General Meeting

The Annual General Meeting of the Company will be held at the Registered Office at 12.30 pm on 22 April 2004. The Notice of Meeting, detailing the Ordinary and Special Business to be conducted is set out on page 44 to this report. Shareholders will be asked to approve resolutions 5 to 7 as Special Business. These resolutions have become routine business at the Annual General Meeting of most public companies, including Systems Union Group plc, and are fully detailed in the Notice of Meeting.

Auditors

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

By Order of the Board

P G Larking
Secretary

1 March 2004

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Remuneration Report

Policy on remuneration of directors and senior management

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

Salary and other benefits

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

Bonus

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

Share options

The Company operates an Inland Revenue Approved share option scheme, from which the grants of Approved, Unapproved and Super options are made. The Company has a policy of granting share options to staff at all levels and details of the options outstanding are set out in note 18 of the financial statements. Details of the options outstanding for directors are detailed in this report.

Options are granted and exercised pursuant to the Rules of the scheme and in accordance with the instructions of the Remuneration Committee. The scheme is administered by the company secretary.

Approved and Unapproved options are termed Ordinary options and are exercisable over a seven year period, three years after date of grant.

Super options vest in proportions of one third of each grant on an annual basis over a three year period, subject to meeting performance criteria set by the Remuneration Committee. In the event the vesting criteria are not met they will be capable of vesting in a future period. The vesting criteria are set annually by the Remuneration Committee. These options are capable of exercise over a seven year period, three years after the date of grant, on the basis of 25 per cent of the cumulative number of vested options. Exercises may only take place at six monthly intervals until 100 per cent of options are capable of exercise. Once 100 per cent are available for exercise they can be exercised in undefined proportions up until ten years from the date of grant.

Pensions

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

Directors' remuneration

	Salary and fees £	Performance bonus £	Benefits in kind £	Pension contributions £	**2003 £**	2002 £
A L R Morton*	30,000	—	—	—	**30,000**	30,000
P J Coleman	225,000	212,500	28,729	22,500	**488,729**	396,828
A C S Sweet**	120,000	90,000	12,912	12,000	**234,912**	11,000
J L Pemberton*	20,000	—	—	—	**20,000**	35,333
	395,000	302,500	41,641	34,500	**773,641**	473,161

* Non-executive and member of the Audit and Remuneration Committees

** Appointed 1 December 2002

Directors' service agreements

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

Remuneration Report

Directors' share options

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

Mr Coleman was granted 2,000,000 Super options on 13 December 2000 at 61.5 pence. These options have all vested as at the date of this report and are capable of exercise in accordance with the 'Share options' note above. In addition, Mr Coleman has 500,000 Ordinary options, granted on 18 March 2002 at 90.5 pence. These options are capable of exercise between 18 March 2005 and 18 March 2012.

Mr Sweet was granted 400,000 Super options on 5 December 2002 at 70.0 pence. 133,333 of these options vested as at the date of this report. 133,334 options are capable of vesting in 2004 and 133,333 are capable of vesting in 2005. In addition, Mr Sweet has 100,000 Ordinary options granted on 5 December 2002 at 70.0 pence. These options are capable of exercise between 5 December 2005 and 5 December 2012.

Corporate Governance

The directors are responsible for the Company's policy on Corporate Governance. The Company supports the Principles of Good Governance and the Code of Best Practice ('the Combined Code').

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

Board and management reporting

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

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

Directors' remuneration

The Board has established a Remuneration Committee comprising the chairman and non-executive director. Details of the Company's remuneration policy are contained in the Remuneration Report on pages 20 to 21. The Committee makes its decisions following consultation with the chief executive officer and has access to external professional advice if required.

Accountability and audit

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

Internal control

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

Financial management

Detailed annual budgets are prepared for the Group and each operating company. These budgets are reviewed and agreed by the Board and actual performance is reported against these budgets on a regular basis. The Company has in place documented authority levels for approving purchase orders, invoices and all bank transactions. Further information concerning financial risk management is detailed in note 17 of the financial statements.

Corporate Governance

Internal control (continued)

Company management

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

Quality management and accreditations

The Company's businesses are focused on meeting the highest levels of customer satisfaction. Quality procedures for the development of the products, services and maintenance support are documented and kept under constant review.

Systems Union Holdings Limited's management systems are certified BS EN ISO 9001:2000 and TickIT for marketing and sale of SunSystems application packages, designed, developed, maintained and supported globally on open and proprietary computer platforms in various national language versions, and the provision of associated consultancy and training.

MIS GmbH is a Microsoft Gold Certified Partner for Business Intelligence.

MIS and Pegasus Software Limited are Microsoft Gold Certified Partners for Software Products.

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, off-site emergency facilities and appropriate insurance policies.

Internal audit

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

Dialogue with institutional shareholders

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

Going concern

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

Independent Auditors Report

Report of the independent auditors to the members of Systems Union Group plc

We have audited the financial statements on pages 24 to 43.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 19, this includes the 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 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 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Reading
1 March 2004

Consolidated Profit & Loss Account *for the year ended 31 December 2003*

	Note	2003 £000	2002 £000
Turnover			
Existing operations		**69,354**	74,631
Acquisitions		**9,073**	—
Turnover	1,2	**78,427**	74,631
Total operating expenses	3	**(73,365)**	(70,871)
EBITDA before research & development		**21,293**	19,211
Research & development		**(10,924)**	(10,544)
EBITDA		**10,369**	8,667
Depreciation		**(1,304)**	(983)
Amortisation of intangibles		**(4,003)**	(3,924)
Operating profit			
Existing operations		**4,840**	3,760
Acquisitions		**222**	—
Operating profit		**5,062**	3,760
Net interest receivable	6	**562**	556
Profit on sale of fixed asset investment		**500**	—
Profit on ordinary activities before taxation		**6,124**	4,316
Taxation on profit on ordinary activities	7	**(452)**	(383)
Profit on ordinary activities after taxation		**5,672**	3,933
Dividends	8	**(1,054)**	—
Retained profit for the financial year		**4,618**	3,933
Earnings per share	9		
– basic		**5.4p**	3.8p
– diluted		**5.3p**	3.7p
Adjusted earnings per share	9		
– basic		**8.7p**	7.2p
– diluted		**8.5p**	7.1p

All results relate to continuing operations in the current and previous year.

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

Consolidated Balance Sheet *as at 31 December 2003*

	Note	2003 £000	Restated 2002 £000
Fixed assets			
Intangible assets	10	**86,356**	62,842
Tangible assets	11	**5,979**	4,105
		92,335	66,947
Current assets			
Debtors	13	**26,948**	18,840
Cash at bank and in hand		**19,646**	18,874
		46,594	37,714
Creditors: amounts falling due within 1 year	14	**(22,828)**	(12,820)
Net current assets		**23,766**	24,894
Total assets less current liabilities		**116,101**	91,841
Creditors: amounts falling due after more than 1 year	15	**(15,000)**	—
Provisions for liabilities and charges	16	**(1,601)**	(1,310)
Deferred income		**(19,761)**	(15,907)
Net assets		**79,739**	74,624
Capital and reserves			
Called up share capital	18	**5,248**	5,196
Share premium	19	**10,013**	9,478
Investment in own shares	19	**(6,300)**	(6,300)
Merger reserve	19	**47,046**	50,582
Warrant reserve	19	**1,239**	1,340
Profit & loss account	19	**22,096**	14,328
Equity shareholders' funds		**79,342**	74,624
Equity minority interest		**397**	—
Capital employed		**79,739**	74,624

These financial statements were approved by the Board of directors on 1 March 2004 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

Company Balance Sheet *as at 31 December 2003*

	Note	2003 £000	Restated 2002 £000
Fixed assets			
Intangible assets	10	**820**	937
Tangible assets	11	**348**	373
Investments	12	**79,054**	55,316
		80,222	56,626
Current assets			
Debtors	13	**5,123**	6,908
Cash at bank and in hand		**14,208**	16,156
		19,331	23,064
Creditors: amounts falling due within 1 year	14	**(14,561)**	(12,006)
Net current assets		**4,770**	11,058
Total assets less current liabilities		**84,992**	67,684
Creditors: amounts falling due after more than 1 year	15	**(15,000)**	—
Net assets		**69,992**	67,684
Capital and reserves			
Called up share capital	18	**5,248**	5,196
Share premium	19	**10,013**	9,478
Investment in own shares	19	**(6,300)**	(6,300)
Merger reserve	19	**57,662**	57,662
Warrant reserve	19	**1,239**	1,340
Profit & loss account	19	**2,130**	308
Equity shareholders' funds		**69,992**	67,684

These financial statements were approved by the Board of directors on 1 March 2004 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

Consolidated Cash Flow Statement *for the year ended 31 December 2003*

	Note	2003 £000	2002 £000
Operating profit		**5,062**	3,760
Amortisation		**4,003**	3,924
Depreciation		**1,304**	983
Loss/(profit) on sale of fixed assets		**5**	(21)
		10,374	8,646
Movement in working capital	22	**(2,480)**	(3,573)
Cash inflow from operating activities		**7,894**	5,073
Returns on investments and servicing of finance	23	**562**	556
Taxation		**(185)**	(78)
Purchase of tangible fixed assets		**(1,965)**	(799)
Sale of fixed asset investment		**500**	—
Purchase of licences		**—**	(1,250)
Acquisitions	23	**(21,090)**	—
Cash (outflow)/inflow before financing		**(14,284)**	3,502
Financing	23	**15,056**	79
Increase in cash in the year		**772**	3,581
Cash at 1 January 2003		**18,874**	15,293
Cash at 31 December 2003		**19,646**	18,874

Consolidated Statement of Total Recognised Gains & Losses *for the year ended 31 December 2003*

	2003 £000	2002 £000
Profit for the financial year	5,672	3,933
Exchange adjustments	(487)	(162)
Total recognised gains & losses relating to the financial year	5,185	3,771

Reconciliation of Movements in Shareholders' Funds *for the year ended 31 December 2003*

	2003 £000	Restated 2002 £000
Profit for the financial year	5,672	3,933
Dividends	(1,054)	—
Retained profit for the financial year	4,618	3,933
Other recognised gains & losses relating to the year	(487)	(162)
New share capital subscribed	587	79
Movement in warrant reserve	—	(136)
Net addition to equity shareholders' funds	4,718	3,714
Equity shareholders' funds at 1 January 2003	74,624	77,210
Investment in own shares (note 1(n))	—	(6,300)
Equity shareholders' funds at 31 December 2003	79,342	74,624

Notes to the Accounts

1 Accounting policies

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

a) Basis of preparation

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

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2003. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit & loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit & loss account.

c) Goodwill and intangible assets

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

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

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

d) Investments

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

e) Tangible fixed assets and depreciation

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

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

No depreciation is provided on freehold land.

f) Foreign currencies

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

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit & loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves.

g) Leases

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

h) Cash and liquid resources

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

i) Pension costs

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

Notes to the Accounts

1 Accounting policies (continued)

j) Turnover

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

k) Research & development expenditure

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

l) Taxation

Deferred tax is accounted for under FRS19 which requires a form of full provision for accounting for deferred tax called the incremental liability approach. Deferred tax is provided on all timing differences where the Group has an obligation to pay more tax in the future as a result of those timing differences. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

m) 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.

n) Investment in own shares

In accordance with UITF Abstract 37, the Group's investment in own shares is presented as a deduction from equity. The balance sheet at 31 December 2002 has been restated accordingly.

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:

	2003 £000	2002 £000
Europe, Middle East & Africa	**54,230**	45,566
The Americas	**9,882**	12,993
Asia Pacific	**14,315**	16,072
	78,427	74,631

b) An analysis by revenue type is given below:

	2003 £000	2002 £000
Licence	**23,956**	26,690
Maintenance	**35,681**	31,716
Services	**18,790**	16,225
	78,427	74,631

3 Total operating expenses

	Existing operations 2003 £000	Acquisitions 2003 £000	Total 2003 £000	2002 £000
Staff costs (note 5)	**34,308**	**5,549**	**39,857**	36,818
Depreciation	**1,156**	**148**	**1,304**	983
Amortisation of intangible fixed assets	**3,682**	**321**	**4,003**	3,924
Other operating expenses	**25,368**	**2,833**	**28,201**	29,146
	64,514	**8,851**	**73,365**	70,871

Notes to the Accounts

3 Total operating expenses (continued)

		2003 £000	2002 £000
Other operating expenses include:			
Auditors remuneration	– Group audit	197	135
	– Company audit	30	30
	– other fees paid to the auditors	175	49
Exchange gains (net)		(333)	(444)
Operating lease rentals: land and buildings		3,340	3,353
Operating lease rentals: other assets		1,143	1,792

4 Directors' remuneration and shareholdings

Information covering directors' remuneration (including pension entitlements), interest in shares and share options is included in the Directors' Report pages 17 to 19 and the Remuneration Report on pages 20 to 21.

5 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	
	2003	2002
Selling	198	184
Research and technical	430	368
Management and administration	222	217
	850	769

The aggregate payroll costs of these persons were as follows:

	2003 £000	2002 £000
Wages and salaries	34,446	32,269
Social security costs	4,294	3,466
Other pension costs	1,117	1,083
	39,857	36,818

6 Net interest receivable

	2003 £000	2002 £000
Bank interest receivable	733	556
Bank interest payable	(171)	—
	562	556

7 Taxation

a) Analysis of charge

	2003 £000	2002 £000
Current tax		
UK corporation tax	—	—
Overseas tax	545	318
Deferred tax		
Origination and reversal of timing differences	(93)	65
Total tax charge	452	383

Notes to the Accounts

7 Taxation (continued)

b) Factors affecting tax charge

The current tax charge for the year is lower (2002: lower) than the standard rate of corporation tax in the UK of 30 per cent (2002: 30 per cent). The differences are explained below:

	2003 £000	2002 £000
Profit on ordinary activities before taxation	6,124	4,316
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent (2002: 30 per cent)	1,837	1,295
Effect of:		
Charges not deductible for tax purposes*	1,010	1,065
Capital allowances in excess of depreciation	(138)	(10)
Utilisation of tax losses	(2,131)	(2,000)
Lower tax rates on overseas earnings	(33)	(32)
Current tax charge for the year	545	318

* Primarily amortisation of goodwill

Certain United Kingdom subsidiaries have trading losses which as at 31 December 2003 amounted to £7.9 million which are available for offset against future trading income. There are further losses available to certain overseas subsidiaries amounting to £16.6 million. No deferred tax assets have been recognised in respect of the timing differences arising from the losses in overseas subsidiaries as the ability of the Group to obtain tax relief is dependent upon suitable profits arising in the relevant statutory companies in the future which are either not currently foreseen or cannot be estimated with sufficient certainty.

8 Dividends

	2003 £000	2002 £000
Final proposed 1p per share (2002: nil)	1,054	—

9 Earnings per share

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

a) Adjusted earnings is calculated as follows:

	2003 £000	2002 £000
Profit for the financial year	5,672	3,933
Amortisation of goodwill	3,855	3,536
Profit on sale of fixed asset investment	(500)	—
Adjusted earnings for the financial year	9,027	7,469

b) Number of shares (in thousands)

	2003	2002
Weighted average number of shares – used to calculate basic earnings per share	104,129	103,760
Effect of dilutive share options	2,218	1,993
Number of shares used to calculate diluted earnings per share	106,347	105,753

Notes to the Accounts

10 Intangible fixed assets

Group	Licences £000	Goodwill £000	Total £000
Cost			
At 1 January 2003	2,585	84,231	86,816
Additions	—	27,517	27,517
At 31 December 2003	**2,585**	**111,748**	**114,333**
Amortisation and impairment			
At 1 January 2003	1,617	22,357	23,974
Charge for the year	148	3,855	4,003
At 31 December 2003	**1,765**	**26,212**	**27,977**
Net book value			
At 1 January 2003	968	61,874	62,842
At 31 December 2003	**820**	**85,536**	**86,356**

Company	Licences £000
Cost	
At 1 January 2003 and 31 December 2003	**1,250**
Amortisation	
At 1 January 2003	313
Charge for the year	117
At 31 December 2003	**430**
Net book value	
At 1 January 2003	937
At 31 December 2003	**820**

11 Tangible fixed assets

Group	Land and buildings £000	Motor Vehicles £000	Office equipment £000	Total £000
Cost				
At 1 January 2003	3,472	—	4,160	7,632
Additions	170	—	1,795	1,965
Subsidiary undertakings acquired	—	50	6,181	6,231
Disposals	—	—	(669)	(669)
Exchange differences	47	—	(123)	(76)
At 31 December 2003	**3,689**	**50**	**11,344**	**15,083**
Depreciation				
At 1 January 2003	635	—	2,892	3,527
Charge for the year	159	3	1,142	1,304
Subsidiary undertakings acquired	—	27	4,972	4,999
On disposals	—	—	(664)	(664)
Exchange differences	51	—	(113)	(62)
At 31 December 2003	**845**	**30**	**8,229**	**9,104**
Net book value				
At 1 January 2003	2,837	—	1,268	4,105
At 31 December 2003	**2,844**	**20**	**3,115**	**5,979**

Notes to the Accounts

11 Tangible fixed assets (continued)

Company	Land and buildings £000	Office equipment £000	Total £000
Cost			
At 1 January 2003 and at 31 December 2003	**361**	**49**	**410**
Depreciation			
At 1 January 2003	13	24	37
Charge for the year	7	18	25
At 31 December 2003	**20**	**42**	**62**
Net book value			
At 1 January 2003	348	25	373
At 31 December 2003	**341**	**7**	**348**

The net book value of land and buildings comprises:

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Freehold	**2,114**	2,167	**341**	348
Long leasehold	**730**	670	**—**	—
	2,844	2,837	**341**	348

12 Fixed asset investments

Company	Shares in subsidiary undertakings £000
Cost	
At 1 January 2003	79,528
Additions	24,738
Disposals	(1,000)
At 31 December 2003	**103,266**
Amounts written off at 1 January 2003 and 31 December 2003	**24,212**
Net book value	
At 1 January 2003	55,316
At 31 December 2003	**79,054**

The additions and disposals during the year represent the purchase of MIS AG and FSL Group Limited and the intergroup sale of a subsidiary. In addition the Company sold its investment in Avorta Limited (previously carried at £nil value) for £500,000.

The principal wholly-owned subsidiary undertakings of Systems Union Group plc at 31 December 2003 were as follows:

	Country of incorporation/registration
Systems Union Holdings Limited	England and Wales
Pegasus Group plc	England and Wales
FSL Group Limited	England and Wales

Notes to the Accounts

12 Fixed asset investments (continued)

The shares in the following wholly-owned subsidiary undertakings were held indirectly by Systems Union Group plc at 31 December 2003:

	Country of incorporation/registration
Foundation Systems Limited	England and Wales
Pegasus Software Limited	England and Wales
Red Technology Services Limited	England and Wales
Systems Union SA	Argentina
Systems Union Pty Limited	Australia
Systems Union Ltda	Brazil
Systems Union Inc	Canada
Systems Union (Shanghai) Co. Limited	China
Systems Union Limited	England and Wales
Systems Union Sarl	France
Systems Union GmbH	Germany
Systems Union Limited	Hong Kong
Systems Union Limited	Japan
Systems Union Mexico SA de CV	Mexico
Systems Union Software Pte Limited	Singapore
SunSystems Iberica Spa	Spain
Systems Union Inc	USA
Systems Union S.p.A.	Italy

Systems Union Group plc owned 93.6% of the equity share capital of MIS AG at 31 December 2003. The principal subsidiaries of MIS AG at 31 December 2003 were as follows:

	Country of Incorporation/Registration	Equity Held
MIS GmbH	Germany	100%
MIS Austria GmbH	Austria	100%
MIS Schweiz AG	Switzerland	100%
MIS UK Limited	England and Wales	100%
MIS AG Italia S.r.l.	Italy	50.5%
MIS AG. S.r.o.	Czech Republic	100%
Chorus Gesellschaft fur Informations-und-Kommunikationstechnologie mbH	Germany	75%

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 management and business intelligence software solutions and associated services.

13 Debtors

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Trade debtors	**19,455**	13,601	**—**	—
Amounts owed by Group undertakings	**—**	—	**4,951**	6,881
Other debtors	**2,360**	1,451	**169**	24
Prepayments and accrued income	**4,238**	2,986	**3**	3
Deferred tax asset (note 16(a))	**895**	802	**—**	—
	26,948	18,840	**5,123**	6,908

All debtors are due within 1 year.

Notes to the Accounts

14 Creditors: amounts falling due within 1 year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Trade creditors	**5,242**	4,142	**514**	49
Amounts owed to Group undertakings	**—**	—	**11,063**	11,351
Corporate taxation	**985**	341	**—**	—
Other tax and social security	**3,208**	1,126	**35**	22
Other creditors	**5,070**	1,767	**2,254**	33
Accruals	**8,247**	5,444	**695**	551
Bank borrowings	**76**	—	**—**	—
	22,828	12,820	**14,561**	12,006

15 Creditors: amounts falling due after more than 1 year

	Group		Company	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Bank loans falling due:				
In more than 2 years but less than 5 years	**15,000**	—	**15,000**	—

The bank loan comprises a £15,000,000 multicurrency facility with Barclays Bank plc which is repayable in October 2006. The facility is fully drawn down and attracts interest at LIBOR plus a variable margin set by reference to a gearing ratio. The margin currently being charged is 60 basis points. The facility is secured by fixed and floating charges on the assets of the principal UK trading companies.

16 Provisions for liabilities and charges

a) The deferred tax asset provided in the accounts comprises:

Group	**2003 £000**	2002 £000
Tax losses carried forward	**802**	802
Other timing differences	**93**	—
	895	802

b) Analysis of movement in the year

	Group £000
Deferred tax provision/(asset) at 1 January 2003	(802)
Deferred tax credit for the year (note 7(a))	(93)
Deferred tax provision/(asset) at 31 December 2003	**(895)**

c) Other provisions

Group	Taxation £000	Other provisions £000	Total £000
At 1 January 2003	1,042	268	1,310
Utilised during year	(282)	(102)	(384)
Arising on acquisitions (note 21)	210	417	627
Charge for year	48	—	48
At 31 December 2003	**1,018**	**583**	**1,601**

Notes to the Accounts

17 Financial instruments and risk management

Financial instruments

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

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

Liquidity risk

The Group finances its operations through a combination of retained profits, new equity and intercompany loans. The Group started the year with £18.9 million in cash and liquid resources. At 31 December the Group's cash and liquid resources were at £19.6 million. The Group continues to monitor its liquidity position through detailed cash forecasting.

Foreign currency risk

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

Interest rate risk

The Group's borrowings at 31 December 2003 comprise the £15 million medium-term loan which attracts interest at LIBOR plus a margin (note 15). The interest rate at 31 December 2003 was 4.6 per cent.

Market price risk

In addition to interest rate and foreign currency risks, the Group is exposed to market price risk relating to its investment in its own shares (note 19).

Financial assets

There were no fixed rate deposits at 31 December 2003 or 31 December 2002.

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

The average interest rate earned during 2003 was 3.7 per cent (2002: 3.9 per cent). The fair value of the financial assets approximates to their book values.

Financial liabilities

The Group's financial liabilities, other than trade and other creditors and accruals, at 31 December 2003 comprise the medium-term £15 million multicurrency facility which is described in note 15.

18 Share capital

	2003 Number	**2003 £000**	2002 Number	2002 £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	**104,958,150**	**5,248**	103,927,689	5,196

During the year, 1,030,461 ordinary shares were issued at an aggregate nominal value of £51,523 and at a premium of £535,109 as a result of exercise of share options.

Notes to the Accounts

18 Share capital (continued)

Share option schemes

At 31 December 2003 the following options over ordinary shares of the Company granted to employees were outstanding:

Systems Union Group plc Employee Share Option Scheme (1999)

Ordinary options

Date of Grant	Number of shares	Exercise Period	Exercise Price (pence)
27 June 2000	382,653	27 June 2003 – 27 June 2010	63.0
9 October 2000	150,000	9 October 2003 – 9 October 2010	55.0
26 October 2000	2,517,621	26 October 2003 – 26 October 2010	51.5
7 November 2000	100,000	7 November 2003 – 7 November 2010	53.0
20 December 2000	531,356	20 December 2003 – 20 December 2010	70.5
3 January 2001	75,000	3 January 2004 – 3 January 2011	67.5
13 February 2001	35,000	13 February 2004 – 13 February 2011	85.5
6 April 2001	1,104,279	6 April 2004 – 6 April 2011	63.5
26 June 2001	247,847	26 June 2004 – 26 June 2011	62.5
28 November 2001	564,955	28 November 2004 – 28 November 2011	82.5
18 March 2002	650,500	18 March 2005 – 18 March 2012	90.5
5 December 2002	100,000	5 December 2005 – 5 December 2012	70.0
18 December 2003	1,357,500	18 December 2006 – 18 December 2013	100.0
	7,816,711		

Super options

Date of grant	Number of shares	Options vested	Exercise price (pence)
13 December 2000	2,000,000	2,000,000	61.5
18 May 2001	1,141,667	1,141,667	77.0
26 June 2001	200,000	200,000	62.5
28 November 2001	100,000	66,667	82.5
18 March 2002	500,000	333,333	90.5
5 December 2002	400,000	133,333	70.0
18 December 2003	250,000	nil	100.0
	4,591,667	3,875,000	

The vesting and exercise criteria for Super options are noted in the Remuneration Report on pages 20 to 21 of the report. The number of options vested, as detailed above, are correct as at the date of this report.

Pegasus Group plc Employee Sharesave Scheme

Date of Grant	Number of shares	Exercise period	Exercise price (pence)
1 October 1998	4,641	1 November 2003 – 30 April 2004	104.0

Oneview.net Unapproved Share Option Scheme

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

Systems Union Group Limited Employee Share Scheme

Date of Grant	Number of shares	Exercise period	Exercise price (pence)
7 May 1999	161,168	3 May 2000 – 7 May 2009	108.0
1 April 2000	123,022	3 May 2000 – 1 April 2010	108.0
	284,190		

Total of options outstanding to employees and ex-employees (including directors)	**13,257,209**

Notes to the Accounts

19 Share premium and reserves

Group	Share premium account £000	Merger reserve £000	Warrant reserve £000	Profit & loss account £000
At 1 January 2003	9,478	50,582	1,340	14,328
Retained profit for the financial year	—	—	—	4,618
Premium on share issues	535	—	—	—
Transfers	—	(3,536)	(101)	3,637
Exchange adjustments	—	—	—	(487)
At 31 December 2003	**10,013**	**47,046**	**1,239**	**22,096**

Company	Share premium account £000	Merger reserve £000	Warrant reserve £000	Profit & loss account £000
At 1 January 2003	9,478	57,662	1,340	308
Retained profit for the year	—	—	—	1,721
Transfers	—	—	(101)	101
Premium on share issues	535	—	—	—
At 31 December 2003	**10,013**	**57,662**	**1,239**	**2,130**

The Group has an investment in 9 million of its own shares which is carried at £6,300,000 (2002: £6,300,000). The market value of this investment at 31 December 2003 was £9,180,000 (2002: £6,525,000).

20 Commitments

a) The Group and Company have no contracted capital commitments at 31 December 2003.

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

	2003		2002	
Group	**Land and buildings £000**	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within 1 year	**771**	**765**	287	663
In the 2nd to 5th years inclusive	**2,272**	**554**	1,160	947
After 5 years	**2,434**	**9**	1,974	2
	5,478	**1,328**	3,421	1,612

	2003		2002	
Company	**Land and buildings £000**	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within 1 year	**—**	**55**	—	—
In the 2nd to 5th years inclusive	**—**	**4**	—	60
	—	**59**	—	60

Notes to the Accounts

21 Acquisitions

a) On 23 September 2003 the Group completed the acquisition of Systems Union S.p.A. purchasing the remaining 50 per cent for a consideration of £2,094,000 and incurred other acquisition costs of £63,000. The total goodwill arising on acquisition was £2,338,000.

The assets and liabilities of Systems Union S.p.A. at fair value were:

	Book Value £000	Revaluation £000	Provisional Fair Value £000
Tangible fixed assets	120	(65)	55
Debtors	721	(25)	696
Creditors	(948)	—	(948)
Provisions	—	(165)	(165)
Cash	232	—	232
Deferred Income	(51)	—	(51)
Net assets/(liabilities) acquired	74	(255)	(181)
Goodwill arising			2,338
Purchase consideration and costs of acquisition			2,157

The revaluation adjustments comprise the write-off of obsolete fixed assets, irrecoverable debtors and the establishment of a provision for free-of-charge consultancy services to be provided to a major customer.

In its last financial year to 31 December 2002, Systems Union S.p.A. made a profit after tax of £9,000. For the period from that date to the date of acquisition, Systems Union S.p.A.'s management accounts show turnover of £1,072,000 and a profit after taxation of £348,000.

b) On 10 October 2003, the Group announced that it had reached an agreement to make an offer to acquire MIS AG. At that time, the Group had received irrevocable acceptances for 50.7 per cent of the MIS AG shares. At 31 December 2003 the Group had acquired 93.6 per cent of the shares of MIS AG for a total cash consideration of £24,616,000, which included acquisition costs of £2,111,000. The total goodwill arising on acquisition was £22,441,000.

The assets and liabilities of MIS AG at fair value were:

	Book Value £000	Revaluation £000	Accounting Policies £000	Other £000	Provisional Fair Value £000
Intangible fixed assets	4,725	(1)	—	(4,569)	155
Tangible fixed assets	1,044	(70)	—	—	974
Investments	658	(658)	—	—	—
Debtors	9,269	(849)	(2,025)	—	6,395
Creditors	(6,979)	565	—	—	(6,414)
Provisions	(210)	(231)	—	—	(441)
Cash	3,976	243	—	—	4,219
Bank Loans	(61)	—	—	—	(61)
Deferred income	(2,289)	34	—	—	(2,255)
Minority interests	(296)	(101)	—	—	(397)
Net assets acquired	9,837	(1,068)	(2,025)	(4,569)	2,175
Goodwill arising					22,441
Purchase consideration and costs of acquisition					24,616

Revaluation adjustments comprise the write-down of obsolete tangible fixed assets and deconsolidation of a subsidiary on the basis that it is being held for sale at a fair value of £1. The accounting policy adjustment relates to the alignment of bad debt provisioning policy. The other fair value adjustment relates to the elimination of goodwill.

On 1 March 2004, MIS AG announced its results for the year to 31 December 2003, with turnover of £33,059,000 and EBITDA of £1,870,000. The post-acquisition element of these results attributable to the Group is turnover of £7,830,000 and EBITDA of £574,000.

In its last financial year prior to the acquisition by the Group to 31 December 2002, MIS AG made a net loss after tax of £8,014,000, which included restructuring expenses of £1,400,000 and an exceptional write-off of a deferred tax asset of £4,165,000.

Notes to the Accounts

21 Acquisitions (continued)

For the 9 months to 30 September 2003, MIS AG reported turnover of £25,080,000, operating profit of £737,000, profit before taxation of £848,000 and profit after taxation and minority interests of £373,000.

c) On 5 December 2003 the Group completed the acquisition of FSL Group Limited for a consideration of £1 and incurred other acquisition costs of £36,000. The total goodwill arising on acquisition was £2,573,000.

The assets and liabilities of FSL Group Limited at fair value were:

	Book Value £000	Revaluation £000	Accounting Policies £000	Other £000	Provisional Fair Value £000
Intangible fixed assets	2,352	—	—	(2,352)	—
Tangible fixed assets	119	(70)	—	—	49
Debtors	2,044	—	(252)	—	1,792
Creditors	(1,964)	66	—	—	(1,898)
Provisions	63	(84)	—	—	(21)
Cash	14	—	—	—	14
Bank loans	(546)	—	—	—	(546)
Deferred income	(1,927)	—	—	—	(1,927)
Net assets/(liabilities) acquired	155	(88)	(252)	(2,352)	(2,537)
Goodwill arising					2,573
Purchase consideration and costs of acquisition					36

The revaluation adjustments relate to the write-down of obsolete fixed assets, the write back of a preference dividend which had previously been waived and the elimination of a deferred tax asset. The fair value adjustment relating to accounting policies comprises the alignment of bad debt provisioning policy. The other fair value adjustment relates to the elimination of goodwill.

In its last financial year to 31 December 2002, FSL Group Limited made a profit after tax of £362,000. For the period from that date to the date of acquisition, FSL Group Limited's management accounts show turnover of £5,619,000 and a loss after taxation of £312,000.

d) On 31 December 2003 the Group completed the purchase of the customer contracts of Romanicus Computer Services Limited for an initial consideration of £165,000.

22 Movement in working capital

	2003 £000	2002 £000
Decrease in debtors	**528**	1,209
Decrease in creditors	**(2,244)**	(6,260)
(Decrease)/increase in deferred income	**(381)**	2,397
Decrease in provisions	**(383)**	(919)
Movement in working capital	**(2,480)**	(3,573)

Notes to the Accounts

23 Analysis of cash flows

	2003 £000	2002 £000
Returns on investment and servicing of finance		
Interest received	733	556
Interest paid	(171)	—
Net cash inflow from returns on investment and servicing of finance	562	556
Financing		
Issue of ordinary share capital	587	79
Repayment of bank loans	(531)	—
New bank loans	15,000	—
Net cash inflow from financing	15,056	79
Acquisitions		
Purchase of subsidiary undertakings	(25,555)	—
Net cash acquired with subsidiary undertakings	4,465	—
Net cash outflow from acquisitions	(21,090)	—

24 Analysis of changes in net cash

	1 January 2003 £000	Acquisitions £000	Cash Flows £000	Exchange Movements £000	31 December 2003 £000
Net cash	18,874	4,465	(3,679)	(14)	19,646
Bank debt	—	(607)	(14,469)	—	(15,076)
Total net cash	18,874	3,858	(18,148)	(14)	4,570

25 Reconciliation of increase in cash to movement in net funds

	2003 £000	2002 £000
Increase in cash	772	3,581
Cash flow from change in debt	(14,469)	—
Change in net funds resulting from cash flows	(13,697)	3,581
Loans acquired with subsidiary undertakings	(607)	—
Movement in net funds	(14,304)	3,581
Net funds at 1 January	18,874	15,293
Net funds at 31 December	4,570	18,874

Notes to the Accounts

26 Purchase of subsidiary undertakings

	Systems Union S.p.A. £000	MIS AG £000	FSL Group Limited £000	Other £000	Total £000
Fair values of consideration given:					
Cash	2,094	22,505	—	165	24,764
Acquisition costs	63	2,111	36	—	2,210
	2,157	24,616	36	165	26,974
Net cash acquired	(232)	(4,219)	(14)	—	(4,465)
Other net liabilities acquired	413	2,044	2,551	—	5,008
Goodwill	**2,338**	**22,441**	**2,573**	**165**	**27,517**

In respect of acquisitions, the consolidated cash flow statement includes £754,000 investment in working capital, £14,000 in respect of bank interest received, £81,000 for taxation paid, £162,000 for capital expenditure and £521,000 for the net repayment of bank loans. Details of the acquisitions are outlined in note 21.

27 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 £1,117,000 (2002: £1,083,000).

Contributions amounting to £120,252 (2002: £91,337) were payable to the schemes at 31 December and are included in creditors.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Systems Union Group plc ('the Company') will be held at the Registered Office of the Company at Systems Union House, 1 Lakeside Road, Aerospace Centre, Farnborough, Hampshire GU14 6XP on 22 April 2004 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 2003, together with the Independent Auditors Report.
2. To declare a final ordinary dividend of 1.0p per share.
3. To re-elect Arthur Leonard Robert Morton, who retires by rotation pursuant to Article 92.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a director.
4. To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

Special business

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

5. That the directors be and they are hereby authorised, in substitution for any other authority previously conferred upon them, generally and unconditionally pursuant to Section 80 of the Companies Act 1985 ('the Act') to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,756,395 (being 33.3 per cent of the total nominal value of the shares in issue at the date of this notice) provided that:
   (i) this authority shall expire fifteen months from the date of this Resolution or at the Annual General Meeting of the Company to be held in 2005 if earlier (unless previously revoked or varied by the Company in general meeting); or
   (ii) the Company may, before such expiry, make an offer, agreement or arrangement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer, agreement or other arrangement as if the authority hereby conferred had not expired.

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

6. That subject to the passing of Ordinary Resolution number 5 above, the directors be and are hereby empowered pursuant to Section 95(1) of the Act and in substitution for all existing powers, to allot equity securities (as defined in Section 94 of the Act), pursuant to the authority conferred by Ordinary Resolution number 5 above as if Section 89(1) of the Act did not apply to any such allotment provided that:
   (i) the allotment of equity securities in connection with any offer whether by way of rights, open offer (or otherwise) as securities, open for acceptance for a period fixed by the directors to the holders of ordinary shares and such other equity securities of the Company as the directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws, or the requirement of any recognised regulatory body or any stock exchange, in any territory; or
   (ii) any other allotment of equity securities up to an aggregate nominal value of £263,459 (being 5 per cent of the total nominal value of the Company's shares in issue as at the date of this notice).
7. That the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163 of the Act) on the London Stock Exchange of ordinary shares of 5p each in the capital of the Company provided that:
   (i) the maximum number of ordinary shares, which are authorised to be purchased, shall be 10,500,000 representing approximately 10 per cent of the Company's issued ordinary share capital;
   (ii) the minimum price which may be paid for such shares is 5p per share (exclusive of expenses);
   (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than 5 per cent above the average of such share's middle market quotation as derived from the Alternative Investment Market of the London Stock Exchange (AIM) for the five business days immediately preceding the day on which the contract is entered into, being days on which AIM is open for the transaction of business.

   The authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2005 or, if earlier, 15 months after the date of passing 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

1 March 2004

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

Notes

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

Cover pictures:

Front cover: London, UK; Sydney, Australia; New York, USA

Back cover: Berlin, Germany; Shanghai, China; Toronto, Canada.

These are 6 of the 40 locations, worldwide, where Systems Union has offices.

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