

Systems Union Group plc

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Systems Union Group plc Interim Statement 2003



Systems
Union

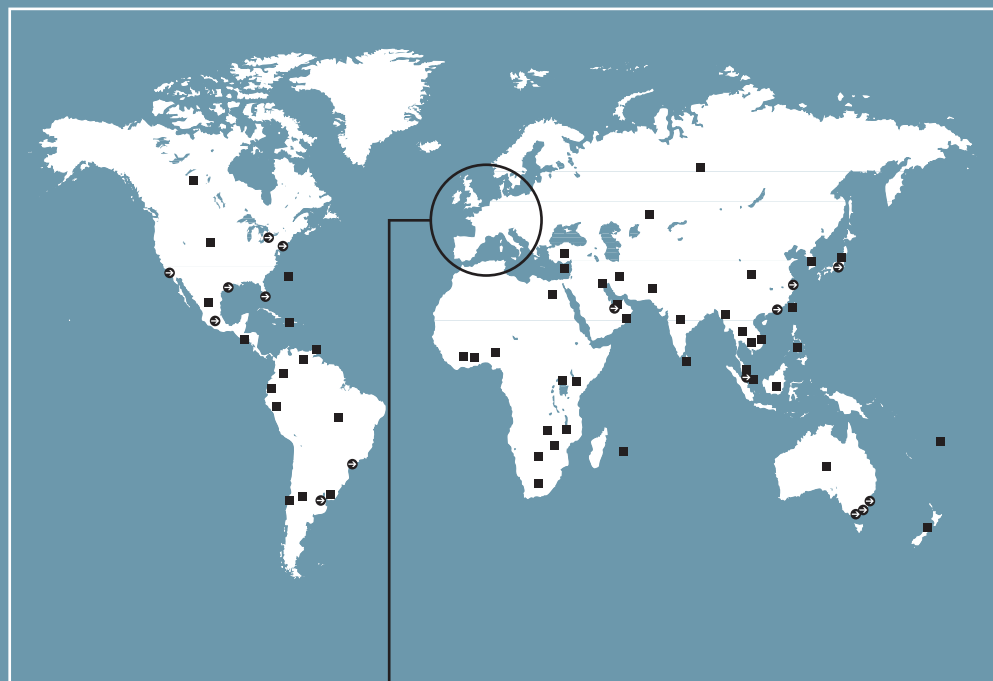
Interim Statement

The Board is pleased to report increased earnings for the period despite difficult trading conditions within the IT sector that resulted in a decline in revenue when compared with last year.

Key highlights for the half-year are

- *Profit before tax rose by 23 per cent to £2.0 million (2002: £1.6 million)*
- *Sixth consecutive half-year of earnings meeting market expectations*
- *EBITDA increased to £4.0 million (2002: £3.8 million)*
- *EBITDA margin increased to 12 per cent (2002: 10 per cent)*
- *Basic EPS improved to 1.7p (2002: 1.6p)*
- *Adjusted EPS improved to 3.4p (2002: 3.2p)*
- *Revenues declined by 9 per cent to £34.0 million (2002: £37.5 million)*
- *Total costs reduced by 11 per cent to £30.0 million (2002: £33.7 million)*
- *Cash and investments at 30 June 2003 were £28.2 million (31 December 2002: £25.2 million) and no debt*
- *The directors will consider declaring a dividend from the full year results*

The Group remains cash generative and debt-free with net current assets of £28.6 million. In addition, it continues to hold an investment in 9 million of its own shares, which are carried at a valuation of £6.3 million.



Key

➔ Location of SunSystems offices

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

★ Other Systems Union Group offices

Interim Statement (cont'd)

Operational review

SunSystems

We have continued to pursue our strategy to develop global strategic alliances. An agreement, as announced in June 2003, has been reached with MAPICS, a world leader in manufacturing solutions. This will result in a minimum of US\$1.5 million in royalties over a three-year period. The Company has also reached agreement to extend its product offerings for pan-application analytics.

A targeting of further business from existing customers has yielded notable contract wins, particularly in the four key vertical markets of hospitality, insurance, energy and aid organisations. In addition, a number of new name customers have also purchased SunSystems licences.

Shell Gas (LPG) will put 300 users onto SunSystems in 21 countries. Ritz-Carlton has purchased 15 licenses for properties in the US, Europe, the Middle East and Asia. Hilton International is rolling-out SunSystems across 25 properties in North America, Latin America and the Caribbean. MetLife and MIIX, both major insurance companies in the US, and ActionAid, one of the UK's largest development agencies, have all purchased SunSystems licences.

KPMG has installed SunSystems in its practices in 6 Eastern European countries, bringing the total to 11 in that region. We have also been selected as a preferred supplier for government work in New South Wales, Australia.

The newly opened office in Shanghai has already secured its first significant customer win. Elsewhere in China, SunSystems licences have been bought by a joint venture between Samsung, Philips and Beijing Datang that supplies third generation (3G) mobile technology. These sales build on our long history in the Asia-Pacific region with 2,300 existing SunSystems sites in China and Hong Kong.

Our continuing investment in R&D, both in the UK and Shanghai, has built on the pre-eminence of our core SunSystems offerings. The focus has been to provide planned updates to SunSystems 5, SunSystems Collect, SunSystems i2i Purchase Requisitioning and SunSystems Report Server, together with a variety of service packs and bespoke work for key customers.

Customer support and service is vital to our business. In addition to providing up-dated and enhanced products, we have invested in improved global communication and support systems to ensure our customers benefit from the application of modern technology.

Pegasus Software

Sales of Opera II now exceed Opera I and the high priority given to quality control procedures has resulted in a significant improvement in customer satisfaction levels.

Enhancements to the range included the Advanced Nominal Ledger for Opera II and XRL, a reporting and analytics offering. Pegasus continues to develop new product initiatives including the introduction of a unique Instant Messenger system.

Plans are well advanced to widen the distribution of Opera II outside the UK and the substantial network of resellers across the UK has been strengthened with the launch of the Certified Partner Programme. This will provide an improved range of benefits for resellers.

Pegasus won the Special Achievement Award at the Help Desk Support Excellence Awards 2003. This scheme recognises distinction in the field of customer support and commended Pegasus's innovative usage of internet-based technology.

REDtechnology.com

Red is a leading provider of hosting and web technology solutions to medium-sized enterprises in the UK. Recent product releases included ConductIT, a sophisticated content management tool, FileIT, a document management tool, and PromoteIT, an e-marketing communication and analytics solution.

Outlook

We are encouraged by the current level of potential orders and are reasonably optimistic that revenues will improve in the second half. However, we have already initiated further cost efficiency measures to ensure that if income levels remain consistent with the first half, there should be an improvement to earnings. Our focus will be to concentrate on growing the business organically and by acquisition using the resources available to the Company.

Bob Morton
Chairman

26 August 2003

Paul Coleman
Chief Executive Officer

Consolidated Profit & Loss Account

For the six months ended 30 June 2003

	Note	Six months ended 30 June 2003 (unaudited) £000	Six months ended 30 June 2002 (unaudited) £000	Year ended 31 Dec 2002 (audited) £000
Turnover	2	34,016	37,459	74,631
Cost of operations		(25,110)	(28,599)	(55,420)
Research & development		(4,868)	(5,051)	(10,544)
EBITDA		4,038	3,809	8,667
Depreciation		(525)	(480)	(983)
Amortisation of intangibles		(1,858)	(1,965)	(3,924)
Operating profit		1,655	1,364	3,760
Net interest receivable		334	252	556
Profit on ordinary activities before taxation		1,989	1,616	4,316
Taxation on profit on ordinary activities		(201)	65	(383)
Profit for the financial period		1,788	1,681	3,933
Earnings per share	3			
– basic		1.7p	1.6p	3.8p
– diluted		1.7p	1.6p	3.7p
Adjusted earnings per share	3			
– basic		3.4p	3.3p	7.2p
– diluted		3.4p	3.2p	7.1p

There is no difference between the retained profit for the period and its historical cost equivalent.

Consolidated Balance Sheet

As at 30 June 2003

	30 June 2003 (unaudited) £000	31 Dec 2002 (audited) £000
Fixed assets		
Intangible assets	60,987	62,842
Tangible assets	4,468	4,105
Investments	6,300	6,300
	71,755	73,247
Current assets		
Debtors	19,077	18,840
Cash at bank and in hand	21,932	18,874
	41,009	37,714
Creditors: amounts falling due within one year	(12,450)	(12,820)
Net current assets	28,559	24,894
Total assets less current liabilities	100,314	98,141
Provisions for liabilities and charges	(1,071)	(1,310)
Deferred income	(16,722)	(15,907)
Net assets	82,521	80,924
Capital and reserves		
Called up share capital	5,198	5,196
Share premium account	9,494	9,478
Merger reserve	48,814	50,582
Warrant reserve	1,340	1,340
Profit and loss account	17,675	14,328
Equity shareholders' funds	82,521	80,924

Consolidated Cash Flow Statement

For the six months ended 30 June 2003

	Six months ended 30 June 2003 (unaudited) £000	Six months ended 30 June 2002 (unaudited) £000	Year ended 31 Dec 2002 (audited) £000
Operating profit	1,655	1,364	3,760
Amortisation	1,858	1,965	3,924
Depreciation	525	480	983
Profit on sale of fixed assets	—	—	(21)
	4,038	3,809	8,646
Movement in working capital	(335)	(1,804)	(3,573)
Cash inflow from operating activities	3,703	2,005	5,073
Returns on investments and servicing of finance	334	252	556
Taxation	(109)	—	(78)
Purchase of tangible fixed assets	(888)	(460)	(799)
Purchase of licences	—	(1,250)	(1,250)
Cash inflow before management of liquid resources and financing	3,040	547	3,502
Management of liquid resources	—	—	—
Financing	18	40	79
Increase in cash in the period	3,058	587	3,581
Net funds at beginning of period	18,874	15,293	15,293
Net funds at end of period	21,932	15,880	18,874

Statement of Total Recognised Gains & Losses

For the six months ended 30 June 2003

	Six months ended 30 June 2003 (unaudited) £000	Six months ended 30 June 2002 (unaudited) £000	Year ended 31 Dec 2002 (audited) £000
Profit for the period	1,788	1,681	3,933
Exchange adjustments	(209)	(290)	(162)
Total gains & losses relating to the period	1,579	1,391	3,771
Prior year adjustment	—	867	867
Total recognised gains & losses	1,579	2,258	4,638

Notes to the Interim Accounts

1 The financial information contained in this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Statutory accounts for the year to 31 December 2002 have been filed with the Registrar of Companies. The auditors have reported on those accounts; their report is unqualified and did not contain a statement under section 237 of the Companies Act 1985.

2 Segmental analysis

Revenue by type

	Six months ended 30 June 2003 (unaudited) £000	Six months ended 30 June 2002 (unaudited) £000	Year ended 31 Dec 2002 (audited) £000
Licences	10,963	13,048	26,690
Maintenance	17,148	15,489	31,716
Services	5,905	8,922	16,225
	34,016	37,459	74,631

Revenue by region

	Six months ended 30 June 2003 (unaudited) £000	Six months ended 30 June 2002 (unaudited) £000	Year ended 31 Dec 2002 (audited) £000
Europe, Middle East & Africa	17,847	17,956	37,428
Asia-Pacific	7,010	7,870	16,072
The Americas	4,929	7,502	12,993
SunSystems	29,786	33,328	66,493
Pegasus Software	3,763	3,674	7,254
REDtechnology.com	467	457	884
	34,016	37,459	74,631

3 Earnings per share

The basic earnings per share has been calculated on the net profit of £1,788,000 and the weighted average number of shares in issue of 103,931,000. The adjusted earnings per share has been calculated on the net profit as adjusted for amortisation of goodwill. The diluted earnings per ordinary share are based on the net profit of £1,788,000 and on a fully diluted weighted average number of shares of 104,870,000.

Independent Review Report to Systems Union Group plc

Introduction

We have been engaged by the Company to review the financial information set out on pages 4 to 7 and we have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This Report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters that we are required to state to it in this 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 for our review work, for this Report, or for the conclusions we have reached.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of Interim Financial Information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

KPMG Audit plc

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26 August 2003