Report of the auditors to the members of Systems Union Group plc
We have audited the Financial Statements on pages 24 to 54.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Directors' Report and, as described on page 18, the Financial Statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent 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. 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.

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company.

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 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 2000 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
5 April 2001
Chartered Accountants
Registered Auditor

Annual Report and Accounts
31 December 2000

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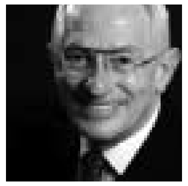
Systems Union Group plc

(formerly freecom.net plc)

Company number: 2735281

Annual Report and Accounts

Year ended 31 December 2000



CHAIRMAN'S STATEMENT

I am pleased to report that we ended the year in a strong position with a clear agenda for our global business. Today we have a set of world-class products and a capable and energetic team focused on meeting customer needs.

We began the year as freecom.net plc, an embryonic provider of virtual retailing services on the Internet for small and medium-sized vendors in the UK. In July 2000, the Company was renamed Systems Union Group plc to reflect the departure from its original dot.com strategy to that of being a global union of systems companies.

Systems Union, with its SunSystems software, and Pegasus, with Opera, provide leading financial and business software solutions to major international and domestic organisations. These businesses form the bedrock of the new Group for 2001.

Results

In common with many technology companies we have focused on measuring the Group's performance in terms of Earnings/(Loss) Before Interest, Tax, Depreciation and Amortisation of intangibles. This is defined in the financial statements as EBITDA/LBITDA.

In the twelve months to 31 December 2000 turnover was £53.8 million. In the second half year, turnover was £38.1 million (first half year, £15.7 million) with an EBITDA from continuing operations of £0.7 million (first half year, LBITDA £5.9 million), after deduction of £7.4 million for research & development (R&D).

The total LBITDA for the year was £11.4 million after deduction of R&D expenditure of £12.5 million representing a heightened level of investment to facilitate the successful launch of new product ranges.

The loss after taxation for the year was £106.6 million. The result includes reorganisation costs, losses from discontinued operations and an impairment of goodwill. This totals £97.4 million, of which £90.0 million was incurred in the first half year. The Board recommends that no dividend is paid.

Acquisitions of Pegasus and Systems Union

Pegasus Group plc, consisting of Pegasus Software and CSM, was acquired in February 2000. Pegasus Software sells financial and business software solutions to small and medium-sized enterprises (SMEs) principally in the United Kingdom. CSM, a provider of software to practising accountants, was sold in April 2000 to Sage Group plc following a critical review of its profit potential.

In May 2000, the Company acquired the entire share capital of Systems Union Holdings Limited, previously named Systems Union Group Limited, the privately owned author of SunSystems financial and business software solutions. It has annualised global sales of £70 million with representation in 74 countries through an extensive worldwide distribution network of 20 offices and more than 200 channel partners. It has some 18,000 customer sites including many from the Fortune 500. SunSystems is available in 27 languages and can handle numerous currencies, including euro triangulation.

At their time of acquisition, Pegasus and Systems Union were heavily engaged in developing major new software products. I am delighted to report that the year ended on a high note with both companies delivering new offerings. Opera II was successfully launched by Pegasus in November; SunSystems 5 (version 1.1) was delivered in December by Systems Union. Great credit is due to the management and staff of both companies, particularly the R&D teams for achieving these milestones in the face of considerable company restructuring.

Both SunSystems and Pegasus have been refocused to become clear marketing and sales oriented businesses with genuine global reach, backed by excellent R&D capabilities. Our clear objective is to ensure that we maintain our market share and build on this position.

Cessation of dot.com activities

The year was not without its disappointments. In late March, the Company made an offer to acquire the entire share capital of an AIM-quoted competitor, Oneview.net plc, subsequently renamed freecom.net GB plc.

In the ensuing period there was a marked change in sentiment by the investment community towards dot.com companies. Previously, dot.coms had been permitted to work towards break-even positions in the medium to long term. By the summer, investor requirements had reverted to traditional earnings per share models. freecom.net GB encountered significant problems, which are further expanded upon in the Chief Executive Officer's Review, and as a result the company was disposed of in December 2000. The Group retains a modest e-business and hosting facility, trading as Systems Union eBusiness Solutions.

Board of directors

The Board saw significant changes during the year. As a consequence of the Group's departure from its original dot.com strategy, Michael Williams and Bodo Heiss resigned as chief executive officer and technical director, respectively, in August 2000 and Paul Coleman, the finance director, was appointed chief executive officer. Other board changes occurred earlier in the year.

Paul Coleman has undertaken a major restructuring of the cost base, restored the Group to financial stability and laid solid foundations for future profitability.

Chris Littmoden, appointed chief operating officer in March, resigned from the Board in December, and we thank him for his contribution to the global refocusing of the SunSystems brand.

Employees

Software businesses are essentially about customers and people. The Company could not have reached and passed its key milestones, which are so important in the development of the business, without the continued loyalty and support of everyone concerned. Pegasus and Systems Union have new but experienced management teams and the Group has stability in the workforce. The Board is very appreciative of the effort and commitment of all employees.

Outlook and current trading

Since the year-end the Group has continued to make good progress towards its strategic goals, both in terms of the commercial launch of its new product ranges and a continually improving financial performance.

> Both SunSystems and Pegasus have been refocused to become clear marketing and sales oriented businesses with genuine global reach, backed by excellent R&D capabilities.

Systems Union has now received its first orders for SunSystems 5 following the successful release of the product at the end of the year. Pegasus has enjoyed a good start to the new financial year following the launch of Opera II in November 2000.

We continue to manage cash resources prudently and the Company is currently engaged in a programme of disposal of redundant properties which it is currently anticipated will yield approximately £3.5 million in net cash in the next few months. The Company is financially sound and has the capacity to fulfil its growth agenda. It is now set to capitalise on the talents of its staff, its new product offerings, its significant international and domestic customer base and its worldwide distribution network.

Bob Morton
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

2000 was a particularly challenging year. I am pleased to report that we ended on a high note, with the delivery of two major new products, SunSystems 5 and Opera II, by the research & development (R&D) teams of Systems Union and Pegasus respectively. These new products, together with the refreshing of SunSystems 4 and the addition of complementary products in 2001, form a very sound basis for future profitability.

The acquisition of Systems Union and Pegasus were the most significant corporate achievements in the year. In the final analysis 2000 was the year in which Systems Union and Pegasus were reversed into the publicly quoted company, giving the Group critical mass and moving it away from the original loss-making dot.com strategy. Both companies are well renowned market leaders in providing financial and business software solutions and they have played a major role in transforming the fortunes of the Group. Following both acquisitions, significant restructuring was undertaken prior to the end of the first half-year and the number of personnel and contractors was reduced by approximately 250 people, primarily in administrative and loss-making areas. With considerably lower cost bases and the newly delivered product offerings, Systems Union and Pegasus are focused on providing leading financial and business software solutions to international and domestic customers, backed-up by first-class service and support.

The most disappointing aspects of the year related to the dot.com activities. Whilst the directors entered into the acquisition of Oneview.net plc, renamed freecom.net GB plc, in good faith in late March, certain information provided to the Company proved to be inaccurate requiring the Company to write-off the entire value of goodwill at the half year. This eventually led to the disposal in December of freecom.net GB to its remaining management for a nominal sum. The disposal followed a significant reduction in personnel and efforts to achieve a break-even performance whilst looking for a trade buyer.

2000 was the year in which Systems Union and Pegasus were reversed into the publicly quoted company.

The sales activity of the original freecom.net dot.com model was much slower than initially anticipated and the cost of acquiring business through advertising was prohibitive. We have restructured the e-commerce activities, which provide web systems and support services and now trade as Systems Union eBusiness Solutions and Systems Union Hosting. These companies will operate on a significantly lower cost base in the current financial year.

As a result of the considerable difficulties experienced in the dot.com environment in the first part of the year, your Company has now moved away from its original dot.com strategy to pursue more substantive global activities based on traditional profit models. The actions undertaken will greatly improve the Company's opportunity to achieve an earnings per share model.

Financial and cash position

The results for the year were severely impacted by the losses incurred from the original dot.com strategy to build a virtual retailing Internet hosting service in the medium to long term. It was to this end that Oneview.net was acquired with the intention of adding critical mass.

By mid year there had been significant disappointment with both the freecom.net and Oneview.net financial performance and the Board decided to refocus its energies on the more traditional software businesses of Pegasus and Systems Union.

In the first half year the Group reported losses of £96.5 million, of which £5.9 million related to LBITDA of the continuing activities and the balance to discontinued activities and restructuring costs.

There was considerable improvement in the performance of the continuing activities in the second half year, resulting in an EBITDA of £0.7 million. It is worth noting that this was achieved after investing £7.4 million in R&D to introduce SunSystems 5 and Opera II to the market.

At 31 December 2000, the Group had cash and liquid securities of £9.1 million together with an interest in the sale proceeds of nine million of its own shares valued at £6.3 million (at 70 pence being the prevailing share price at 31 December 2000) and properties held for sale with a book value of £7.3 million.

After deduction of debt amounting to £5.3 million, this totalled £17.4 million. Negotiations are currently taking place for the disposal of these properties and it is anticipated that the net proceeds will exceed the net book values. Net assets were £74.7 million, of which net current assets were £7.0 million, after deduction of deferred income amounting to £10.5 million.

The cash balance at 31 March 2001 was £7.6 million. The cash position for the latter half of the year and the first quarter of 2001 has been impacted by the reduction in creditors and the finalisation of the restructuring costs announced at the half year stage.

There has been a decrease in cash and liquid securities of £10.0 million to £9.1 million during the year, together with an increase in bank debts of £5.3 million secured on the properties held for sale, resulting in an overall decrease in net funds of £15.3 million. Of this decrease, £3.6 million relates to reorganisation costs and £4.8 million to a reduction in creditors in the continuing operations and £9.5 million was absorbed by discontinued operations.

Summary of results

	First half *£000*	**Second half** *£000*	**Full year** *£000*
Turnover			
– *Continuing*	14,376	36,620	50,996
– *Discontinued*	1,310	1,472	2,782
	15,686	38,092	53,778
EBITDA/(LBITDA)			
– *Continuing Operations before R&D*	(828)	8,090	7,262
– *R&D*	(5,115)	(7,402)	(12,517)
– *Continuing Operations after R&D*	(5,943)	688	(5,255)
– *Discontinued*	(1,605)	(4,563)	(6,168)
LBITDA	(7,548)	(3,875)	(11,423)
Depreciation	(1,216)	(977)	(2,193)
Amortisation and impairment of intangibles	(14,529)	(1,931)	(16,460)
Operating loss	(23,293)	(6,783)	(30,076)
Reorganisation costs, profit and loss on disposal of investments and discontinued activities	(73,807)	(2,734)	(76,541)
Net interest receivable	585	108	693
(Loss) on ordinary activities before tax	(96,515)	(9,409)	(105,924)
Taxation on ordinary activities	-	(705)	(705)
(Loss) on ordinary activities after tax	(96,515)	(10,114)	(106,629)
(Loss) per share – pence	(115.0)	(10.3)	(125.3)
Adjusted (loss) per share – pence	(6.0)	0.0	(6.0)

We believe that the income recognition policy of the Group is prudent and in compliance with best practice. It is pleasing to report that average debtor days have been substantially reduced in all operating companies since their consolidation into the Group.

Operational review – Continuing activities

Systems Union Holdings Limited

Following comprehensive brand research, it was agreed that greater emphasis would be put on the SunSystems name, but with Systems Union Holdings Limited remaining the legal entity. The core competence focuses on financial and business software solutions, with products developed in-house and in conjunction with third parties.

Systems Union continues to enhance and develop the SunSystems range of software together with the complementary management and reporting tools (including reporting via the Internet). A key strength is the global nature of the offerings. Whereas many rival products are built for use in their home country and sold internationally, SunSystems incorporates capabilities such as handling three sales tax systems on any transaction, 'rough-book' facilities, three simultaneous currencies and more, as standard. This means that customer needs can be met, irrespective of country, with minimal adaptation. Enhancements during 2000, and plans for subsequent developments, provide integration with e-commerce, PSA (professional services automation) and gateways for third party software.

Services are provided to project manage and implement SunSystems and to provide ongoing user support. Developments such as computer-based training, web-based advice tools and centralised telephone support for consistent service for multinational customers are examples.

Brand strengths

SunSystems' strong brand attributes include the following:

- Global strengths: both the geographic spread of operations and the internationalisation of the software solutions.
- Range of functionality: not only the inherent strengths of the core products, such as the ongoing SunSystems 4 and the new SunSystems 5, but also additional modules and partner-developed products.
- Speed of implementation and low cost of ownership, regularly achieving the goal of 'on time and on budget'.
- An international reputation for quality software solutions and excellent support services.

Systems Union and Pegasus are focused on providing leading financial and business software solutions to international and domestic customers, backed-up by first-class service and support.

Market positioning

The SunSystems strategy focuses on the upper mid-market for financial and business software solutions. The product is used extensively by multinational organisations, whose offices worldwide require an international product with global support infrastructures. This includes corporations, public sector organisations and non-profit making concerns.

Routes to market

Systems Union has a direct and indirect sales network around the world. The in-house (direct) sales teams typically handle cross-border activities, providing industry knowledge and co-ordination. Channel partners (indirect sales) provide either a complete sales, consulting and support services (particularly where Systems Union has no local office) or are able to meet customers' specific or vertical requirements.

This combination of routes to market gives great flexibility to ensure the company provides a consistent, customer-focused, local service worldwide.

Review of activities

In excess of 50 per cent of SunSystems revenues are generated in EMEA of which the UK is the largest part. Activities in the rest of the world are divided equally between The Americas and Asia-Pacific regions. Of total income, recurring revenue accounts for one third with new licence sales and consulting accounting for the remainder.

EMEA (Europe, Middle East and Africa)

The UK has a strong mix of direct and channel partner routes to market. The highest number of SunSystems users is in the UK, many with extensive overseas interests, and recurring revenue is the highest in the Group due to the maturity of the market and mix of users.

Routes to market in mainland Europe are predominately direct, through offices in Paris, Frankfurt, Madrid and Milan. Restructuring of the offices in Europe, including the closure of the Dutch office and the creation of a Milan office as a joint venture, has enabled the region to become more focused on providing pan-European solutions to international customers without excess overheads. Further expansion in Europe is planned for the coming year.

Eastern European, Middle Eastern and African markets are served by channel partners.

SunSystems is a market leader, especially in Hong Kong and Japan, and has been very successful in spite of tough competition.

The Americas

North America is very much a direct route to market whereas Latin America predominately takes a channel partner route. It has been a fiercely competitive market for SunSystems especially in the US where the concentration of global headquarters of the largest corporations combines with a number of domestic competitors.

The focus has been on marketing to the domestic market and the overseas operations of American-based corporations. This has yielded much success since it plays to SunSystems' strengths and to the weaknesses of competitors' product offerings.

The SunSystems strategy focuses on the upper mid-market for financial and business software solutions. The product is used extensively by multinational organisations.

Asia-Pacific

The region is split into four areas due to the large geographic area and the various cultures. These are managed from offices in Hong Kong, Singapore, Japan and Australia. With the exception of Australia, channel partners are the principal routes to market in this region.

SunSystems is a market leader, especially in Hong Kong and Japan, and has been very successful in spite of tough competition. There continues to be great opportunities to expand our market reach, particularly into China.

Research & development

The speed with which international markets demand increased functionality and connectivity with new technologies has presented R&D with a challenge which it is now successfully meeting through the delivery of new products and through new partnerships. Focused development and financial direction will continue to be key factors.

The company is aggressively implementing new and innovative technologies such as Enterprise Java and XML and moving away from Cobol. This is particularly important in enhancing the integration capabilities not only with customers' existing OEM software products, but also for complementary products to SunSystems.

Moreover, the company is implementing best practices, such as the Rational Unified Process, as it strives to become more effective and to reduce the cost of developing and maintaining software.

The main R&D facility at Farnborough is supported by smaller functions in The Americas and Asia-Pacific.

Services & support
Services to support the regions/divisions have been rationalised to provide effective and value added support. The services & support facilities have been strengthened, with a range of options available to suit individual customer requirements. For example, web-based advice tools are available backed by telephone support. Computer-based training, using the Internet, is being rolled-out to allow users to maximise their skills at a time and location convenient to them.

For multinational customers who have a large number of sites spread around the world, centralised support is available to ensure there is strong consistency of service.

Pegasus Software Limited

When the Pegasus business was acquired the company had embarked on a project to develop a Windows product. Sales were declining and profitability was under threat as a result of a high cost base. New management radically accelerated the development programme, restructured the business, reduced the cost base and, having launched Opera II, has reversed the trend in revenues. However, the investment in R&D required to bring Opera II to market had a significant impact on profitability for the year.

Opera II represents a strong proposition for new and existing customers. It delivers all the strengths of the existing Opera product within a true 32-bit Windows environment. Internet and email technologies have been integrated within the core application to deliver innovative new value. Opera II has been well received with good trade and customer reviews.

Opera II has been well received with good trade and customer reviews.

Pegasus continues to offer the excellent Capital Gold product for smaller businesses, which together with Opera has contributed to the successful second half year with many conversions of Pegasus legacy products and those of competitors to the new Windows range.

Route to market is solely via value added resellers (VARs), of which there are 240 Opera resellers and over 500 in all. Some 45 per cent of income is recurring revenue due to maintenance contracts with most of the balance resulting from new licence sales.

Systems Union eBusiness Solutions Limited

The original freecom.net business, based near Oxford, has been restructured and renamed Systems Union eBusiness Solutions (SUeBS). This provides e-business application consulting, development, hosting and support services to the core businesses and external customers.

The operation had a mixed year but, now that it is free of the disposed of dot.com activities, it is able to move forward with a clear strategy for 2001.

Operational review – Discontinued activities

The acquisition of Oneview.net plc was completed in March 2000. Certain information provided to the Company proved to be inaccurate. This became apparent only after the purchase of Oneview.net was declared unconditional and the allotment of the consideration shares. As a result of the legal settlement with the management vendors, which included the departure of the principal directors, a power of attorney was granted over nine million of the shares, originally allotted to them as consideration, in favour of the Company. The benefit of the value of these shares will be realised at a time the Company decides to exercise the power of attorney.

It became apparent, subsequent to the first opportunity the Company had to undertake a complete review of Oneview.net, that its business plan was fundamentally flawed. Despite drastic action, including the reduction of staff from 550 to below 220, the company continued to trade unprofitably and the resultant cash outflow was impacting significantly on the Group.

Following the change in sentiment in the investment market for dot.com businesses and the failure to bring freecom.net GB (formerly called Oneview.net) to an acceptable business model, the directors sought to dispose of the company. It was sold to its current management for a nominal sum together with an agreement to pay £1 million for a call option exercisable for £1 to acquire shares in the management buy-out company on a pro-rata basis to fresh capital of approximately £1.1 million injected by the management team. The £1 million represented approximately six weeks' losses. The arrangements were concluded in December 2000 so ending the Group's significant involvement in dot.com activities.

In December 2000, Potential Development Limited, acquired in February 2000, was also sold to its management for a nominal sum; freecom Training and freecom Consulting were closed. Investment activities conducted by freecom Ventures have ceased and the Group is seeking to dispose of its one remaining investment. The embryonic joint venture in Germany, freecom AG, has been terminated.

The Company embarked on a programme of rationalising its property portfolio and optimising the utilisation of its premises in the UK. Surplus office space in Ruislip and Dogmersfield Park in Hampshire were vacated for disposal. Once sold, these properties should collectively yield in excess of £3 million, net of debt.

Staff

The Company embarked on a major restructuring of all its businesses in the UK in the summer of 2000. New management structures are now in place in all parts of the Group, both in the UK and overseas. Staff loyalty incentives are a key part of the strategy, and a significant number of options have been granted to employees in the year.

I would like to thank all staff for their considerable efforts and support in a particularly challenging year.

The refocused Group is now very well positioned to take advantage of the considerable investment made in R&D and we will continue to invest in this essential area.

The future

The Company is focused on marketing and selling software solutions to its international customer base with excellent R&D capabilities backed by first-class support and professional services. Significant cost has been taken out of the Group and loss-making activities have been reduced to minimal levels. Value-added opportunities continue to be considered to enhance service levels and earnings potential.

The refocused Group is now very well positioned to take advantage of the considerable investment made in R&D and we will continue to invest in this essential area. Through its impressive international distribution network, the Group is now positioned to deliver financial and business solutions on a global basis.

Paul Coleman
Chief Executive Officer

SunSystems
Powering Business Decisions

AN INTRODUCTION TO SUNSYSTEMS

Organisations – irrespective of how they are structured or where they are located – need to be fully in control of their business and the elements that can deliver future success. The right information at the right time provides the power to make the necessary business decisions.

SunSystems provides that information, by delivering a flexible and cost effective finance and business management system that has been implemented at over 18,000 customer sites in some 187 countries. A large number of customers are multinational organisations engaged in cross border trade. Specific industry sectors in which the company is a market leader include finance, oil & gas and hospitality. In addition, it has a major customer base in the public sector, notably government departments such as healthcare and defence. The company is also very strong in the charities and non-profit making sector.

Broadly, the software solutions include the financial ledgers, purchase and sales order processing, inventory control and a range of reporting modules to aid decision making.

The software solution is available in 27 languages and operates independently of database and server platforms, running on Microsoft Windows NT, with SQL Server or Oracle, and UNIX with Oracle. It is used extensively by multinationals whose subsidiaries worldwide require an international product with a global support infrastructure. SunSystems 4 – especially version 4.2.6 – has comprehensive financial, analysis and e-business capabilities; SunSystems 5 – unveiled at the end of 2000 – greatly extends the order fulfilment, integration and international capabilities.

SunSystems is different because it not only helps manage the day-to-day operations but fundamentally it also provides information back to the organisation in a structure that is flexible and easy to analyse.

Global capabilities

Global markets need applications without boundaries. For global organisations, SunSystems is an extremely attractive option as it can balance the needs of both central head office and their overseas subsidiaries. It is built and designed around the concept of flexibility and acceptability in all countries. Through the implementation of this single software solution organisations can not only reduce their costs but also satisfy the local needs for legal compliance, language, currency and support.

The flexibility of SunSystems means that parameters are easily defined as part of the set-up within each country. A range of global and local statutory requirements is incorporated into all versions of SunSystems, avoiding the need to create these locally and allowing fast global deployment.

Integration ready

SunSystems can provide the backbone for most organisations' finance and operational processes. However there are going to be some cases where a specialist application needs to be integrated within these processes. SunSystems offers a range of integration tools that are based on industry standards such as XML (eXtensible Markup Language). These enable users to connect their back office system to other applications. The use of web-based applications connected with SunSystems enables organisations to connect electronically with their suppliers, customers and employees.

> Software solutions include the financial ledgers, purchase and sales order processing, inventory control and a range of reporting modules to aid decision making.

Flexibility built-in

SunSystems 5's unique structure means it is equipped to enable change throughout the organisation. Expansion, acquisitions, multi-level consolidations, new reporting methods, changes in technology… SunSystems takes the challenge of change in its stride. Moreover, the scalability of the offering means that it can be used on a stand-alone PC (such as in a local branch office) or a network with many users (for example, at head office).

Transactional analysis

SunSystems enables organisations to understand the key drivers and resistors in their operations. From segmenting customers and markets to understanding the cost base, the SunSystems multi-dimensional analysis engine provides a unique insight into every facet of the enterprise. Importantly, the different dimensions of organisational activity can be reflected without having to prescribe a data relationship in advance, which means that the dimensions analysed can change over time, without having to re-implement the system. The end result is that SunSystems is uniquely flexible but without adding implementation complexity.

> It is used extensively by multinationals whose subsidiaries worldwide require an international product with a global support infrastructure.

Eliminating friction

It is crucial to take control of business processes in a constantly changing environment, especially where related to cost, opportunity and risk. It is also essential to monitor the fundamental processes in the organisation, and have the tools to react quickly to the exceptions that often make the difference.

Indeed, it is a strength of SunSystems that it can handle the exceptions with equal ease to the normal requests. This means that organisations can concentrate on the needs of customers rather than the limitations of business administration.

Distributing information

For information to be valuable, it has to be accessible and meaningful. SunSystems includes a sophisticated report generator that will deliver management reports and documents such as invoices in printed or various electronic formats. For example, invoices can be emailed or reports published on websites to be securely shared with employees, customers or suppliers. This gives the flexibility to offer internal users and external business partners a wealth of timely, accurate and clearly presented information.
In addition, a set of business intelligence tools enables managers to access data in real time and drill down from summary to detail levels. In addition it provides the ability to dynamically link with MS Excel spreadsheets.

For more information, please visit www.sunsystems.com

pegasus
BUSINESS SOFTWARE

AN INTRODUCTION TO PEGASUS SOFTWARE

Pegasus provides small and medium-sized enterprises (SMEs) with the finance and business systems they need to allow them to concentrate on the core of their business, their employees, supplier and customer relationships, rather than their back office administrative functions.

Pegasus develops and supports several product ranges including:

- Pegasus Opera represents the foundation for the organisation's success to date and is key to the company's growth plans going forward. Pegasus committed substantial resources to the development of Opera II which was launched in November 2000. Typically companies using Opera or Opera II have between five and 100 employees.
- Capital Gold is designed for smaller organisations and as such has been designed with ease of use in mind. Typically companies using Capital Gold would have between one and 15 employees. Launched in 1997, there are over 3,000 users in the UK and overseas, served by 350 value added resellers (VARs).

Pegasus Opera II can add a vital edge to an overall business, allowing users to take early advantage from it, safe in the knowledge that it will grow with the company.

Breadth and depth of functionality
Opera II offers SMEs a broad range of software modules that can be rapidly implemented and include sales, purchase and nominal ledgers, cashbook, sales and purchase order processing, stock control and payroll. A manufacturing suite of modules is provided.

Pegasus Opera II delivers rich functionality – multi-company, multi-currency, multi-warehouses, comprehensive security facilities, VAT 100 reporting, nominal consolidation, euro triangulation, drill down, rapid searching and definable management reports.

Pegasus provides small and medium-sized enterprises with finance and business systems.

Flexibility
Opera II is an open system, able to meet each customer's particular business requirements. This may involve adding an extra field on a screen or integrating an application from another supplier.
The Developers' Toolkit enables these changes to be made without compromising the core application.

Appropriate technology
Opera II is a true 32-bit Windows application. However, many SMEs cannot afford the luxury of an extensive in-house IT function so, unlike many other applications, Pegasus Opera II has a relatively small technology footprint, minimising the supporting technology and ongoing systems management it requires.

Outward looking
Whilst other accounting systems simply serve the finance department, Opera II is designed to engage with a much wider community of users, both within an organisation and outside such as customers and suppliers. The product achieves this as a result of tight integration between the core application, email and web technologies, for example posting reports to a corporate intranet, chasing overdue invoices from debtors via email, or automatically informing the stores department when stock falls below reorder levels.

Whilst other accounting systems simply serve the finance department, Opera II is designed to engage with a much wider community of users.

Commitment & confidence
Pegasus has over 35,000 users and 500 VARs predominantly in the UK. High levels of recurring revenue give the company a platform from which it consistently commits appropriate levels of resource in product development and support. This same critical mass gives customers the confidence to invest in the product and brand.

For more information, please visit www.pegasus.co.uk

AN INTRODUCTION TO SYSTEMS UNION eBUSINESS SOLUTIONS

Systems Union eBusiness Solutions (SUeBS) provides three key, inter-related activities: creation of web systems, integration of applications and hosting.

Web systems
The company designs and builds web systems for customers targeted at either business-to-business (b2b) or business-to-consumer (b2c) audiences. This is backed by full project management, such as site specification, format and budget. The service includes technology, consulting, systems analysis and project management.

Integration of applications
With the rapid growth of e-tailing, e-procurement and other aspects of electronic trading, the need for integration with financial management systems – including SunSystems and Pegasus – and other back office applications is important. This means that, for example, the payment of an e-tail purchase can be processed automatically without the need for re-inputting information. Solutions have been implemented in customer intranets, such as online requisitions, travel authorisation and other internal forms.

Hosting
At a datacentre in the London Docklands and backed with facilities at Eynsham Oxfordshire, SUeBS hosts web systems for customers. This includes firewall protection and recovery capabilities to ensure web systems are continuously online. Dual systems with back-ups of all Internet connectors, cables and infrastructure ensures there is minimal chance of single point failure. The datacentre is continuously manned with controls and checks in place to minimise the chances of systems breakdown.

The hosting service provided by SUeBS is highly personalised with customers getting a package that meets their requirements, rather than being forced into an unsuitable off-the-peg solution.

For more information, please visit www.systemsunion.net

DIRECTORS AND ADVISERS

Directors	A L R Morton FCA *(Non-executive Chairman)* P J Coleman FCA *(Chief Executive Officer)* J G Glicker *(Non-executive Director)* J L Pemberton *(Non-executive Director)*
Company Secretary	P G Larking FCIS
Registered Office	Systems Union House 1 Lakeside Road, Aerospace Centre Farnborough, Hampshire, GU14 6XP *Registered in England and Wales: Number 2735281*
Nominated Adviser and Broker	Peel Hunt plc 62 Threadneedle Street London, EC2R 8HP
Auditor	KPMG Audit Plc Arlington Business Park Theale, Reading, RG7 4SD
Solicitors	Burges Salmon Narrow Quay House Narrow Quay, Bristol, BS1 4AH
Bankers	Barclays Bank plc 54 Lombard Street London, EC3V 9EX
Registrars	Capita IRG Plc Bourne House, 34 Beckenham Road Beckenham, Kent, BR3 4TU
Financial PR	Bell Pottinger Financial Limited 20 Red Lion Court Fleet Street, London, EC4A 3HE

DIRECTORS' REPORT

The directors present their Annual Report together with the Audited Consolidated Financial Statements of the Group for the year ended 31 December 2000.

Principal activities and business review

The Company's principal activity is the design, development, production and distribution of financial and business software solutions, sold under the SunSystems and Pegasus brands to international and domestic markets. E-commerce, Internet hosting and support services are sold through the Systems Union eBusiness Solutions company.

Approval was given by shareholders on 20 July 2000 to change the company name from freecom.net plc to Systems Union Group plc.

A review of the Group's operations is included within the Chief Executive Officer's Review on page 3 to page 8.

Financial results and dividends

Details of the results for the year ended 31 December 2000 are set out on page 24 to page 54 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 £53,778,000 (1999: £600,000) and loss after taxation was £106,629,000 (1999: loss £1,953,000).

No interim dividend has been paid and the directors recommend that no final dividend be paid for the year (1999: nil).

Product development

Total gross expenditure on research & development was £12,517,000 (1999: £36,000). Costs are written off to the profit & loss account in the period in which they are incurred. The Company continues to attach considerable importance to the updating of its products, either by internal development or the purchase of external software products where this is more appropriate.

Directors and their interests

The directors who have served during the year are:

A L R Morton	
P J Coleman	*(appointed 17 March 2000)*
J G Glicker	
J L Pemberton	*(appointed 23 June 2000)*
M D Williams	*(resigned 15 August 2000)*
B Heiss	*(resigned 15 August 2000)*
S G Williams	*(resigned 17 March 2000)*
I R Fernie	*(resigned 17 March 2000)*
D Miles	*(appointed 10 January and resigned 11 May 2000)*
C Littmoden	*(appointed 28 March 2000 and resigned 30 November 2000)*

Bob Morton (59) 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, Baron Corporation Plc, BsoftB plc, Clarity Commerce Solutions plc and InterClubNet plc. He is also chairman of Vislink plc and MacLellan Group plc.

Paul Coleman (49) has over thirty years experience with wide ranging knowledge of a number of industries both in the UK and internationally. Prior to joining the Systems Union Group he was the group finance director and investment analyst at the Carlisle Group plc, and European finance director at international security company ADT Group plc.

James Glicker (47) is a venture partner with Venture Strategy Group, a venture capital investment firm in San Francisco, CA, USA. He has over 20 years experience in marketing and general management. Most recently he was vice president of marketing for GeoCities, an Internet firm that was sold to Yahoo for $4.3 billion in 1999. He is also a director of gameplay.com plc.

John Pemberton (52) 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 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 are recorded in the register maintained by the Company in accordance with the provisions of the Companies Act 1985 were as follows:

	At 31 December 2000 5p ordinary shares	**At 1 January 2000** 5p ordinary shares
A L R Morton	8,385,520	6,994,270
P J Coleman	100,000	-
J G Glicker	100,000	100,000
J L Pemberton	5,646,308	-
M D Williams	N/A	3,906,245
I R Fernie	N/A	62,500
S G Williams	N/A	100,000
B Heiss	N/A	125,000

It is the Company's aim that recruitment and development of staff should be determined solely on ability and other relevant requirements of the job.

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

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

	Number of shares	Percentage of share capital
M&G Investment Management Limited	12,703,382	12.30%
Henderson Global Investors Limited	9,902,653	9.59%
S.J. Lawley, Esq	6,501,239	6.30%
Schroder Investment Management Limited	6,486,264	6.28%
The Fleming Mercantile Investment Trust plc	6,393,795	6.19%

Business acquisitions and disposals
During the year the Company made a number of acquisitions, investments and disposals. Details of these transactions are set out in note 20 to the Accounts.

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

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

Payment of suppliers
The Company agrees appropriate terms & conditions individually with its suppliers. It seeks to abide by these agreed terms provided that the supplier has also complied with them.

The number of creditors days at 31 December 2000 was 58 (31 December 1999: 38 days). It should be noted that the business undertaken in the year was fundamentally different in nature to that undertaken in 1999. It should be further noted that there has been a reduction in creditor days in Systems Union Holdings Ltd since its acquisition in May 2000.

Donations
There were no political donations during the year. Donations of a charitable nature amounted to £16,296 (1999: nil).

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

Annual General Meeting
The Annual General Meeting of the Company will be held at the Registered Office at 12.30 pm on 25 May 2001. The notice of the meeting, together with items of Special Business, are set out on pages 55 & 56 to this report.

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

By Order of the Board
P G Larking
Secretary
5 April 2001

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

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

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

REMUNERATION REPORT

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

Procedures for developing policy and fixing remuneration

The Company has a Remuneration Committee that comprises the chairman and non-executive directors. The committee makes its decisions following consultation with the chief executive officer and has access to professional advice from outside the Company, if required.

Policy on remuneration of directors and senior management

Remuneration of the executive directors is determined by the Remuneration Committee. Terms of appointment of non-executive directors are subject to Board approval and within limits set by the Articles of Association of the Company. Terms of appointment of senior management are approved by the chief executive officer.

Policies are designed to attract, motivate and retain high calibre individuals and to reward them for enhancing value to shareholders. The important elements of the remuneration policy are:

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

Annual bonus

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

Share options

The Company operates an Inland Revenue approved share option scheme, which also facilitates the grant of super options and unapproved options. Options outstanding for directors are detailed in this report. The Company has a policy of granting share options to staff at all levels. Further details of the share option schemes, and options outstanding are set out in Note 21 to the Accounts.

Pensions

The Company makes defined contributions to personal pension plans which operate within the Group. Company contributions in some Group companies are dependent upon participating staff making a personal contribution.

Directors' service agreements

The chief executive officer has a service agreement with the Company, capable of termination on 12 months notice. A L R Morton and J G Glicker have letters of appointment, which are capable of termination by the Company on six months notice. J L Pemberton, whose appointment as an executive director was changed to non-executive on 16 January 2001, has a fixed term agreement until 30 April 2002, whereupon it is capable of being extended should the Company and Mr Pemberton so agree.

Directors' share options

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

2,000,000 options granted on 13 December 2000 at 61.5 pence. Options shall vest in tranches of 500,000 when the share price of the Company reaches the targets, as set out below, for not less than 30 consecutive days in any period following the date of grant.

Target share price	Number of options
£1.00	500,000
£1.50	500,000
£2.00	500,000
£2.50	500,000

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

At 5 April 2001 no other directors who served during the year have options which are capable of exercise at a future date.

Directors' remuneration

	Salary and fees £	Performance bonus £	Benefits in kind £	Pension contributions £	Comp'sation for loss of office £	Total 2000 £	Total 1999 £
Executive directors							
P J Coleman	119,931	10,000	17,389	11,916	N/A	**159,236**	Nil
M D Williams	120,353	40,000	1,174	3,526	200,000	**365,053**	96,514
B Heiss	57,083	20,000	16,063	Nil	125,000	**218,146**	23,740
I R Fernie	20,358	10,000	3,386	Nil	36,700	**70,444**	17,788
D Miles	37,651	Nil	3,400	Nil	38,000	**79,051**	Nil
C Littmoden	107,981	Nil	11,384	10,462	100,000	**229,827**	Nil
Non-executive directors							
A L R Morton	29,000	Nil	Nil	Nil	N/A	**29,000**	13,500
J G Glicker	18,000	Nil	Nil	Nil	N/A	**18,000**	3,000
J L Pemberton*	95,583	Nil	177	33,420	N/A	**129,180**	Nil
S G Williams	1,000	Nil	Nil	Nil	Nil	**1,000**	2,000
	606,940	**80,000**	**52,973**	**59,324**	**499,700**	**1,298,937**	156,542

*Note: All figures for J L Pemberton relate to the period in which he was an executive director.

CORPORATE GOVERNANCE

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

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

Directors and their meetings

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

Comprehensive management reports are produced each month by each operating company and a summary of these is presented to the Board at its monthly meeting. Such information includes a summary of the key features of the company's performance and an analysis against budget revenue and expenditure. Board papers are circulated to all members of the Board in advance of their meetings to ensure that members of the Board are given the fullest opportunity for consideration of matters to be discussed.

Directors' remuneration

The Board has established a Remuneration Committee comprising the chairman and the non-executive directors. Details of the Company's remuneration policy are contained in the Remuneration Report on page 19.

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 directors. This committee meets as necessary and provides a forum for the non-executive directors to meet with the external auditor.

The Company's businesses are focused on meeting the highest levels of customer satisfaction.

Internal control

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

The key elements of the Group's system of internal control are as follows:

Financial information

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

Company management

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

In addition, the chief executive officer is supported by a small corporate head office team comprising the Group financial controller, general counsel, Group planning and quality assurance director and the company secretary.

Quality management

The Company's businesses are focused on meeting the highest levels of customer satisfaction. Quality procedures for the sales, marketing and development of the products and the provision of associated consultancy and training are documented and kept under constant review. Systems Union Holdings Ltd holds ISO9001/TickIT accreditation.

Business risks and computer systems

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

Dialogue with institutional shareholders

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

The Board seeks to ensure that its Annual Report and Financial Statements provide a balanced and concise assessment of the Company's position.

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.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2000

		Continuing operations		Discontinued	Total	
		Existing	Acquisitions	operations	2000	1999
	Note	£000	£000	£000	£000	£000
Turnover	1, 2	1,042	49,954	2,782	**53,778**	600
Cost of sales		(404)	(10,670)	(1,011)	**(12,085)**	(192)
Gross Profit		638	39,284	1,771	**41,693**	408
Administrative expenses		(4,660)	(28,000)	(7,939)	**(40,599)**	(1,988)
		(4,022)	11,284	(6,168)	**1,094**	(1,580)
Research and development		-	(12,517)	-	**(12,517)**	-
LBITDA		(4,022)	(1,233)	(6,168)	**(11,423)**	(1,580)
Depreciation		(403)	(1,622)	(168)	**(2,193)**	(156)
Amortisation/impairment of intangibles		-	(16,460)	-	**(16,460)**	(326)
Operating loss		(4,425)	(19,315)	(6,336)	**(30,076)**	(2,062)
Profit on disposal of investments		-	-	2,109	**2,109**	20
Reorganisation costs	3	-	(4,386)	(2,779)	**(7,165)**	-
Loss on sale of discontinued operations	4	-	-	(71,485)	**(71,485)**	-
Net interest receivable	5	693	-	-	**693**	89
Loss on ordinary activities before taxation	6	(3,732)	(23,701)	(78,491)	**(105,924)**	(1,953)
Taxation on loss on ordinary activities	9	-	(705)	-	**(705)**	-
Loss for the financial year transferred to reserves		(3,732)	(24,406)	(78,491)	**(106,629)**	(1,953)
Basic loss per share (pence)	10				**(125.3)**	(9.8)
Adjusted loss per share (pence)	10				**(6.0)**	(9.0)
Diluted loss per share (pence)	10				**(125.3)**	(9.8)

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

CONSOLIDATED BALANCE SHEET

at 31 December 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Fixed assets					
Intangible assets	11		**68,800**		-
Tangible assets	12		**4,716**		1,786
			73,516		1,786
Current assets					
Debtors	14	**19,106**		454	
Properties held for sale		**7,302**		-	
Other current assets	15	**6,300**		-	
Cash at bank and in hand		**9,135**		19,112	
		41,843		19,566	
Creditors: amounts falling due within one year	16	**(24,390)**		(595)	
Deferred income		**(10,464)**		-	
		(34,854)		(595)	
Net current assets			**6,989**		18,971
Total assets less current liabilities			**80,505**		20,757
Creditors: amounts falling due after more than one year	17		**(3,173)**		(41)
Provisions for liabilities and charges	18		**(2,584)**		-
Net assets			**74,748**		20,716
Capital and reserves					
Called up share capital	21		**5,158**		1,879
Share premium account	22		**35,896**		20,950
Merger reserve	22		**57,662**		-
Warrant reserve	22		**1,892**		-
Profit and loss account	22		**(25,860)**		(2,113)
Equity shareholders' funds			**74,748**		20,716

These financial statements were approved by the Board of Directors on 5 April 2001 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

COMPANY BALANCE SHEET

at 31 December 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Fixed Assets					
Tangible assets	12		**398**		1,786
Investments	13		**54,252**		-
			54,650		1,786
Current assets					
Debtors	14	**16,589**		454	
Properties held for sale		**1,022**		-	
Other current assets	15	**6,300**		-	
Cash at bank and in hand		**7,040**		19,112	
		30,951		19,566	
Creditors: amounts falling due within one year	16	**(10,853)**		(595)	
Net current assets			**20,098**		18,971
Total assets less current liabilities			**74,748**		20,757
Creditors: amounts falling due after more than one year	17		-		(41)
Net assets			**74,748**		20,716
Capital and reserves					
Called up share capital	21		**5,158**		1,879
Share premium account	22		**35,896**		20,950
Merger reserve	22		**57,662**		-
Warrant reserve	22		**1,892**		-
Profit and loss account	22		**(25,860)**		(2,113)
Equity shareholders' funds			**74,748**		20,716

These financial statements were approved by the Board of Directors on 5 April 2001 and were signed on its behalf by:

P J Coleman
Chief Executive Officer

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2000

	Note	2000 £000	1999 £000
Cash flow statement			
Cash outflow from operating activities	26	**(22,566)**	(1,394)
Returns on investments and servicing of finance	27	**693**	10
Taxation		**(225)**	-
Capital expenditure and financial investment	27	**(2,022)**	(1,582)
Acquisitions and disposals	27	**1,166**	-
Cash outflow before management of liquid resources and financing		**(22,954)**	(2,966)
Management of liquid resources	27	**15,028**	(19,028)
Financing	27	**12,977**	22,140
Increase in cash in the year		**5,051**	146

Reconciliation of net cash flow to movement in net funds

	Note	2000 £000	1999 £000
Increase in cash in the year		**5,051**	146
Cash inflow from change in debt		**2,354**	94
Cash (outflow)/inflow from (decrease)/increase in liquid resources		**(15,028)**	19,028
Change in net funds resulting from cash flows		**(7,623)**	19,268
Loans acquired with subsidiary undertakings		**(7,600)**	-
New finance leases		-	(87)
Movement in net funds		**(15,223)**	19,181
Net funds at 1 January 2000		**19,058**	(123)
Net funds at 31 December 2000	28	**3,835**	19,058

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2000

	2000 £000	1999 £000
Loss for the financial year	**(106,629)**	(1,953)
Exchange adjustments offset in reserves	**(523)**	-
Total recognised gains and losses relating to the financial year	**(107,152)**	(1,953)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2000

	2000 £000	1999 £000
Loss for the financial year	**(106,629)**	(1,953)
Other recognised gains and losses relating to the year	**(523)**	-
New share capital subscribed (net of issue costs)	**18,225**	22,234
Other reserves arising on acquisition	**142,959**	-
Net addition to equity shareholders' funds	**54,032**	20,281
Equity shareholders' funds at 1 January 2000	**20,716**	435
Equity shareholders' funds at 31 December 2000	**74,748**	20,716

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.
Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Goodwill and intangible assets

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation of acquisitions is capitalised and amortised to nil by equal annual instalments over an estimated useful life of 20 years.
Intangible assets are stated at cost. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recognised in the profit and loss account. No value is attributed to internally generated intangible assets.

Investments

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

Tangible fixed assets and depreciation

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

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

No depreciation is provided on freehold land.

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.
The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

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

Cash and liquid resources

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

Pension costs

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

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. Revenue from licence fees is recognised on the later of delivery or contract provided no significant future obligation exists. Income from maintenance services is recognised on a straight line basis over the period to which the maintenance agreement relates. Revenue from professional services is recognised as the work is performed.

Research and development expenditure

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

Taxation

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

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. The cost represents the difference between the option exercise price and the market value of the shares at the date of the grant of the option. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares.

No provision is made for employer's NIC associated with any gains on vested share options on the basis that this expense is recoverable from the employee.

2. Segmental analysis

The directors consider there to be only one class of business being the development and distribution of business software. The geographical analysis of turnover is given below:

	EMEA		Americas		Asia Pacific		Total Group	
	2000	1999	**2000**	1999	**2000**	1999	**2000**	1999
	£000	£000	**£000**	£000	**£000**	£000	**£000**	£000
Turnover								
Continuing operations	**1,042**	600	**-**	-	**-**	-	**1,042**	600
Acquisitions	**28,505**	-	**10,167**	-	**11,282**	-	**49,954**	-
Discontinued operations	**2,782**	-	**-**	-	**-**	-	**2,782**	-
Turnover by origin	**32,329**	600	**10,167**	-	**11,282**	-	**53,778**	600

Turnover analysis by geographical destination is not significantly different from geographical origin. No additional segmental analysis is provided as the directors are of the opinion that further disclosure would be seriously prejudicial to the business.

3. Reorganisation costs

Following the acquisition of Systems Union Holdings Limited, Pegasus Group plc and freecom.net GB plc, the operating companies underwent significant restructuring. The associated costs are not expected to recur and comprise the following:

	Continuing operations	**Discontinued operations**	**Total 2000**	1999
	£000	£000	**£000**	£000
Property closures	348	-	**348**	-
Redundancies	2,851	1,483	**4,334**	-
Asset write downs	757	314	**1,071**	-
Surplus motor vehicles	-	568	**568**	-
Other expenses	430	414	**844**	-
	4,386	2,779	**7,165**	-

4. Loss on sale of discontinued operations

	2000	1999
	£000	£000
Loss on sale of Potential Development Limited	**1,060**	-
Loss on sale of freecom.net GB plc	**70,425**	-
	71,485	-

On 6 December 2000, the Group disposed of its shareholding in Potential Development Limited for a nominal consideration. The loss on disposal of £1,060,000 includes goodwill written off of £1,039,000.

On 13 December 2000, the Group disposed of its shareholding in freecom.net GB plc for a nominal consideration. The loss on disposal of £70,425,000 includes goodwill written off of £68,833,000 and £1,000,000 paid to the vendors for a call option over 49.7% of the voting equity which is exercisable on the occurrence of certain future events.

5. Net interest receivable

	2000 £000	1999 £000
Bank interest receivable	**1,141**	102
Interest payable:		
On bank loans and overdrafts	**(309)**	(3)
On all other loans	**(139)**	(10)
	693	89

6. Loss on ordinary activities before taxation

		2000 £000	1999 £000
Loss on ordinary activities before taxation is stated:			
after charging:			
Auditors' remuneration	- Group audit	**216**	-
	- Company audit	**36**	23
	- Other fees paid to the auditor	**185**	4
Depreciation		**2,193**	157
Other amounts written off tangible fixed assets		**1,071**	-
Amortisation / impairment of goodwill and intangible fixed assets		**16,460**	326
Exchange losses		**358**	-
Operating lease rentals: land and buildings		**2,350**	42
Operating lease rentals: other assets		**1,148**	34
and after crediting:			
Exchange gains		**1,054**	-

7. Directors' remuneration and shareholdings

Information covering directors' remuneration (including pension entitlements), interest in shares and share options is included in the Directors' Report and Remuneration Report on pages 15 to 20.

8. 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 2000	1999
Selling	**163**	11
Research and technical	**343**	14
Management and administration	**146**	9
	652	34

8. Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2000 £000	1999 £000
Wages and salaries	**20,680**	851
Social security costs	**2,613**	77
Other pension costs	**797**	-
	24,090	928

9. Taxation

	2000 £000	1999 £000
UK corporation tax		
Current tax on income at 30% (1999 at 30.25%)	-	-
Foreign tax		
Current tax on income	**705**	-
	705	-

10. Loss per share

a) Basic loss per share

The calculation of the basic loss per share is based on the loss on ordinary activities after taxation of £106,629,000 (1999: Loss £1,953,000) divided by the weighted average number of shares in issue during the year of 85,086,707 (1999: 19,995,942).

b) Adjusted loss per share

The operating loss of the discontinued business and the non-operating gains and losses do not relate to the profitability of the Group on an ongoing basis. Therefore, the adjusted loss per share is presented based on the following:

	2000 £000	1999 £000
Loss on ordinary activities after taxation	**(106,629)**	(1,953)
Adjustments for:		
Amortisation of goodwill	**16,460**	-
Depreciation	**2,193**	156
Loss on sale of discontinued operations	**71,485**	-
Reorganisation costs	**7,165**	-
Profit on disposal of investments	**(2,109)**	-
Discontinued operations	**6,336**	-
Loss after taxation from continuing operations	**(5,099)**	(1,797)

c) Diluted loss per share

Where a loss per share is disclosed none of the dilutive shares give rise to any dilution in that loss per share. Therefore the diluted loss per share is stated as the same as the basic loss per share.

11. Intangible fixed assets

Group	Licences £000	Goodwill £000	Total £000
Cost			
At 1 January 2000	-	-	-
Reclassifications	1,185	-	1,185
Additions	-	153,947	153,947
Disposals	-	(69,872)	(69,872)
At 31 December 2000	1,185	84,075	85,260
Amortisation and impairment			
At 1 January 2000	-	-	-
Charged in year	-	1,778	1,778
Impairment losses	1,185	83,369	84,554
On disposals	-	(69,872)	(69,872)
At 31 December 2000	1,185	15,275	16,460
Net book value			
At 1 January 2000	-	-	-
At 31 December 2000	-	**68,800**	**68,800**

The directors consider each acquisition separately for the purpose of determining the amortisation of any goodwill arising. The amortisation periods relating to the acquisitions during the year and the directors' reasons for the period chosen are disclosed in Note 20.

12. Tangible fixed assets

Group	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2000	-	2,013	77	2,090
Additions	1,488	1,527	43	3,058
Subsidiary undertakings acquired	9,457	3,107	165	12,729
Disposals	-	(193)	(210)	(403)
Disposal of discontinued operations	(22)	(1,642)	(13)	(1,677)
Reclassifications	(7,321)	(1,185)	-	(8,506)
Exchange differences	(2)	187	-	185
At 31 December 2000	3,600	3,814	62	7,476
Depreciation				
At 1 January 2000	-	286	18	304
Charge for year	360	1,785	48	2,193
Disposal of discontinued operations	(22)	(852)	(7)	(881)
Impairment losses	-	1,071	-	1,071
On disposals	-	(21)	(25)	(46)
Reclassifications	(19)	-	-	(19)
Exchange differences	1	137	-	138
At 31 December 2000	320	2,406	34	2,760
Net book value				
At 1 January 2000	-	1,727	59	1,786
At 31 December 2000	**3,280**	**1,408**	**28**	**4,716**

Reclassifications comprise the transfer of two freehold properties which are held for sale to current assets, and the re-designation of third party software licences as intangible fixed assets (Note 11).

12. Tangible fixed assets (continued)

Company	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2000	-	2,013	77	2,090
Additions	1,402	684	15	2,101
Disposals	-	-	(73)	(73)
Transfers to current assets	(1,041)	-	-	(1,041)
Transfer to other group companies	-	(1,734)	-	(1,734)
At 31 December 2000	361	963	19	1,343
Depreciation				
At 1 January 2000	-	286	18	304
Charge for year	25	323	15	363
Impairment losses	-	502	-	502
On disposals	-	-	(25)	(25)
Transfers to current assets	(19)	-	-	(19)
Transfer to other group companies	-	(180)	-	(180)
At 31 December 2000	6	931	8	945
Net book value				
At 1 January 2000	-	1,727	59	1,786
At 31 December 2000	**355**	**32**	**11**	**398**

The net book value of land and buildings comprises:

	Group		Company	
	2000 £000	1999 £000	**2000 £000**	1999 £000
Freehold	**355**	-	**355**	-
Long leasehold	**2,925**	-	**-**	-
	3,280	-	**355**	-

13. Fixed asset investments

Company	Shares in subsidiary undertakings £000
Cost: at 1 January 2000	-
Additions	157,173
Disposals	(78,709)
At 31 December 2000	78,464
Amounts written off at 1 January 2000	-
Additions	102,921
Disposals	(78,709)
At 31 December 2000	24,212
Net book value:	
At 1 January 2000	-
At 31 December 2000	**54,252**

The principal subsidiary undertakings of the Group at 31 December 2000 were as follows:

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

Note (1) – Shares held by subsidiary undertaking

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

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

14. Debtors

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Trade debtors	**14,657**	186	**33**	186
Amounts owed by group undertakings	-	-	**16,495**	-
Other debtors	**3,138**	135	**16**	135
Prepayments and accrued income	**1,311**	133	**45**	133
	19,106	454	**16,589**	454

15. Other current assets

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Interest in own shares	**6,300**	-	**6,300**	-

Other assets comprise the Group's interest in the settlement sum owed by three former directors of freecom.net GB plc. It is represented by 9,000,000 ordinary shares of 5p each in Systems Union Group plc which are valued at the closing mid-market price at 31 December 2000 of 70p.

16. Creditors: amounts falling due within one year

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Bank and other loans	**3,400**	-	-	-
Trade and other creditors	**5,626**	214	**182**	214
Amounts owed to group undertakings	-	-	**8,981**	-
Taxation and social security	**2,554**	67	**95**	67
Other creditors	**5,817**	14	**93**	14
Accruals	**6,993**	300	**1,502**	300
	24,390	595	**10,853**	595

17. Creditors: amounts falling due after more than one year

	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Bank and other loans	**1,900**	-	-	-
Other creditors	**1,273**	41	-	41
	3,173	41	-	41

Analysis of debt	Group 2000 £000	Group 1999 £000	Company 2000 £000	Company 1999 £000
Debt can be analysed as falling due:				
In one year or less, or on demand	**3,400**	-	-	-
Between one and two years	**400**	-	-	-
Between two and five years	**1,500**	-	-	-
	5,300	-	-	-

Bank and other loans are secured on freehold property and bear interest at the following rates:
i) 7% on £3,000,000
ii) 1.5 points above base rate on £2,300,000

18. Provisions for liabilities and charges

Group	**Taxation £000**	**Other fair value provisions £000**	**Total £000**
At 1 January 2000	-	-	-
Arising on acquisition	1,230	1,645	2,875
Utilised during year	-	(483)	(483)
Charge for the year	-	196	196
Amounts released unused	-	(54)	(54)
Exchange differences	42	8	50
At 31 December 2000	**1,272**	**1,312**	**2,584**

The other fair value provisions relate principally to surplus office space in the UK and US existing on the acquisiton of Systems Union Holdings Limited. The vacant office space in Farnborough, Hampshire, UK has been successfully sub-let from January 2001 and negotiations are in progress to dispose of Dogmersfield Park, Hampshire, UK. A tenant is being sought for the vacant office space in White Plains, New Jersey, USA.

19. Financial instruments and risk management

Financial instruments

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

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

Liquidity risk

The Group finances its operations through a combination of retained profits, new equity and loans. The Group started the year with £19.1 million in cash and liquid resources following its listing on AIM in November 1999. In March and May 2000 the Group raised a further £15,246,000 net of expenses from share placings which was used in part to fund the acquisition of Systems Union Holdings Limited. The Group's acquisitions and discontinued operations required significant injections of working capital during the year which resulted in a net outflow of cash. At 31 December 2000 the Group's cash and liquid resources stand at £9.1 million. The Group continues to monitor its liquidity position through detailed cash forecasting.

Foreign currency risk

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

Interest rate risk

The Group's borrowings at 31 December 2000 comprise £5.3 million of loans which are secured on a freehold property which is held for sale. The borrowings attract interest at the rate of 7.1% on average and will be repaid out of the proceeds of sale.

Market price risk

In addition to interest rate and foreign currency risks, the Group is exposed to market price risk relating to its interest in its own shares. As disclosed in note 15, the carrying value of this asset is £6,300,000 which represents the market value of these shares at 31 December 2000.

19. Financial instruments and risk management (continued)

Financial assets

The interest rate profile of the Group's financial assets, other than debtors, at 31 December 2000 was as follows:

	Currency	Total £000	Floating rate £000	Fixed rate £000	Assets on which no interest is received £000
Cash	Sterling	7,489	3,489	4,000	-
	Guilders	36	36	-	-
	French Francs	80	80	-	-
	Pesetas	12	12	-	-
	Deutsche Marks	243	243	-	-
	Canadian Dollars	33	33	-	-
	US Dollars	363	363	-	-
	Hong Kong Dollars	412	412	-	-
	Singapore Dollars	81	81	-	-
	Yen	118	118	-	-
	Australian Dollars	268	268	-	-
Total cash		9,135	5,135	4,000	-
Interest in own shares	Sterling	6,300	-	-	6,300
Total at 31 December 2000		**15,435**	**5,135**	**4,000**	**6,300**

At 31 December 1999 the Group's financial assets, other than trade debtors, comprised £19.1m of sterling cash held on short term deposit.

The average investment period for the fixed rate Sterling deposits was within one month and the average interest rate earned was 5.62%. Floating rate cash earns interest based on relevant national interest rates.
The fair value of the financial assets approximates to their book values.

Financial Liabilities

The interest rate profile of the Group's financial liabilities, other than trade and other creditors and accruals, at 31 December 2000 is as follows:

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

The Group had no material financial liabilities (other than trade and other creditors and accruals) at 31 December 1999.

The maturity profiles of the above liabilities can be found in note 17.

The floating rate financial liabilities comprise a secured bank loan on which interest is paid at 1.5 points above base rate. The fair value of the financial liabilities approximates to their book value.

20. Acquisitions

a) On 10 February 2000 the Group completed the acquisition of Potential Development Limited for a total consideration of £1,104,000 which included acquisition costs of £65,000. The total goodwill arising on acquisition was £1,039,000.

The assets and liabilities of Potential Development Limited at fair value were:

	Book value £000	Revaluation £000	Fair value £000
Tangible fixed assets	6	-	6
Debtors	513	(96)	417
Cash	322	-	322
Creditors falling due within one year	(496)	(9)	(505)
Deferred income	(175)	-	(175)
Net assets	170	(105)	65
Goodwill arising			1,039
Purchase consideration and costs of acquisition			1,104

The revaluation adjustment in respect of debtors reflects the write-down to estimated realisable value and an increase in the corporation tax provision in respect of creditors.

In its last financial year to 30 June 1999, Potential Development made a profit after taxation of £25,000 and for the period since that date to the date of acquisition, it made a profit before taxation of £97,000. Following the strategic review of the Group's activities, Potential Development was sold on 6 December 2000 for a nominal consideration.

b) On 22 February 2000, the Group completed the acquisition of Pegasus Group plc for a total consideration of £51,123,000 which included £971,000 of acquisition costs. The resulting goodwill of £39,753,000 was capitalised. This figure was calculated by reference to the Group's high share price at the date of acquisition and, owing to a dramatic change in market sentiment, the directors considered it appropriate to write down the carrying value by £13,483,000. Given the strength of the Pegasus brand, product portfolio and distribution channel, the directors are of the opinion that the remaining goodwill of £26,270,000 should be amortised over a period of 20 years.

	Book value £000	Revaluation £000	Other adjustments £000	Fair value £000
Tangible fixed assets	3,141	-	(156)	2,985
Business held for sale	-	-	9,000	9,000
Debtors	2,739	60	(765)	2,034
Cash	918	-	999	1,917
Creditors falling due within one year	(3,734)	347	592	(2,795)
Deferred income	(3,182)	-	1,411	(1,771)
Provisions	(120)	120	-	-
Net (liabilities) /assets	(238)	527	11,081	11,370
Goodwill arising				39,753
Purchase consideration and costs of acquisition				51,123

20. Acquisitions (continued)

Revaluation adjustments comprise the reduction in trade debtor provisions and write back of surplus tax provisions and accruals. The other adjustment of £999,000 relates to the receipt of cash on the exercise of executive share options and of £10,082,000 to the profit on disposal of CSM Limited realised by Pegasus Group plc in April 2000. During the year ended 31 December 1999, Pegasus Group plc made a loss after taxation of £357,000.

The results for Pegasus Group plc for the period 1 January 2000 to 22 February 2000 were as follows:

	£000
Turnover	1,887
Operating loss	(970)
Net interest receivable	10
Exceptional items	(920)
Loss before taxation	(1,880)
Taxation	-
Loss after taxation	(1,880)

Other than the loss for the period there were no gains and losses.

Exceptional items relate principally to the costs associated with acquisition of Pegasus Group plc by Systems Union Group plc and other potential purchasers.

20. Acquisitions (continued)

c) On 4 May 2000, the Group completed the acquisition of Systems Union Holdings Limited for a total consideration of £26,980,000 which included cash consideration and acquisition costs of £8,029,000. The resulting goodwill of £44,308,000 was capitalised and given the strength of the SunSystems brand, product portfolio and distribution network, the directors are of the opinion that an amortisation period of 20 years is appropriate.

	Book value £000	Revaluation £000	Accounting policy alignment £000	Provisional fair value £000
Tangible fixed assets	8,689	(133)	-	8,556
Debtors	20,459	(3,509)	-	16,950
Cash	3,178	-	-	3,178
Bank overdrafts	(4,941)	-	-	(4,941)
Creditors falling due within one year	(21,810)	(646)	(2,419)	(24,875)
Creditors falling due after one year	(2,384)	-	(2,334)	(4,718)
Provisions	-	(2,875)	-	(2,875)
Deferred income	(8,603)	-	-	(8,603)
Net liabilities	(5,412)	(7,163)	(4,753)	(17,328)
Goodwill				44,308
Purchase consideration and costs of acquisition				26,980

The book value of the assets and liabilities have been taken from the management accounts of Systems Union Holdings Limited at 30 April 2000 (effective date of acquisition) at actual exchange rates on that date. The fair value adjustments contain some provisional amounts in respect of taxation which will be finalised during 2001. Revaluation adjustments in respect of tangible fixed assets relate to the write-off of obsolete computer and office equipment and the upward revaluation of a freehold property. Revaluation adjustments in respect of debtors relate to an increase in the provision for doubtful trade debtors and the write-off of certain irrecoverable other debtors and prepayments.

Revaluation adjustments in respect of creditors relate not only to accrual adjustments, but also provisional adjustments to taxation liabilities in the UK and USA. The taxation liabilities had not been agreed with appropriate tax authorities for a number of years and work is being carried out to agree the computations. The revaluation provision adjustments relate primarily to the provision for vacant properties whilst the accounting policy adjustments relate to establishing a creditor for outstanding holiday pay entitlement of employees and the recognition of contractual liabilities for companion products.
During the year ended 31 August 1999, Systems Union Holdings Limited made a loss after taxation of £2,143,000. The results for Systems Union Holdings Limited for the period 1 September 1999 to 4 May 2000 were as follows:

	£000
Turnover	39,472
Operating loss	(13,579)
Net interest payable	(506)
Loss before taxation	(14,085)
Taxation	48
Loss after taxation	(14,037)

In addition to the loss after taxation, there were exchange losses on opening net assets of £130,000 recognised in the 8 month period to 30 April 2000. In the event that the above mentioned fair value adjustments were included, the loss for the period would be £25,953,000.

20. Acquisitions (continued)

d) On 2 May 2000, the Group completed the acquisition of freecom.net GB plc (formerly Oneview.net plc) for a total consideration of £70,095,000 including acquisition costs of £629,000. The resulting goodwill of £68,833,000 has been written off as part of the loss on disposal of discontinued operations as following a strategic review, freecom.net GB plc was sold in December 2000 for a nominal consideration.

	Fair value and book value £000
Tangible fixed assets	1,026
Debtors	811
Cash	1,540
Creditors falling due within one year	(2,034)
Provisions	(81)
Net assets	1,262
Goodwill	68,833
Purchase consideration and costs of acquisition	70,095

For the 15 month period to 31 March 2000, freecom.net GB plc made a loss after taxation of £6,320,000. There are no fair value adjustments disclosed in the table above because approximately £1,562,000 of adjustments were booked in the statutory accounts drawn up to 31 March 2000. The adjustments comprised the expensing of costs incorrectly capitalised in the management accounts and the increase in the provision for doubtful trade debtors.

The results for freecom.net GB plc for the period 1 April 2000 to 2 May 2000 were as follows:

	£000
Turnover	166
Operating loss	(1,355)
Net interest receivable	12
Loss before taxation	(1,343)
Taxation	-
Loss after taxation	(1,343)

Other than the loss for the period there were no other gains and losses.

21. Called up share capital

	2000 No.	2000 £000	1999 No.	1999 £000
Authorised:				
Equity: Ordinary shares of 5p each	**200,000,000**	**10,000**	60,000,000	3,000
Allotted, called up and fully paid:				
Equity: Ordinary shares of 5p each	**103,170,187**	**5,158**	37,584,500	1,879

At an Extraordinary General Meeting held on 31 January 2000 the authorised share capital was increased by 40,000,000 shares of 5 pence each to 100,000,000 shares.

At an Extraordinary General Meeting held on 5 June 2000 the authorised share capital was increased by 100,000,000 shares of 5 each pence to 200,000,000 shares.

During the year, 1,016,665 ordinary shares were issued at an aggregate nominal value of £50,833 and at a premium of £26,040 in connection with the share option schemes.

In addition, 373,134, 16,825,364, 8,217,234 and 33,545,031 ordinary shares were issued to the vendors in connection with the acquisition of Potential Development Limited, Pegasus Group plc, Systems Union Holdings Limited and freecom.net GB plc (formerly Oneview.net GB plc).

Finally, there were two share placings during the year, the details of which are as follows:

a) 13 March 2000
1,720,000 shares issued at a nominal value of £86,000 and at a premium of £8,514,000. Net costs of placement of £172,000 were charged to the share premium account.

b) 5 June 2000
3,888,889 shares issued at a nominal value of £194,444 and at a premium of £6,805,556. Net costs of placement of £175,000 were charged to the share premium account.

Share Option Schemes

Approximately 80% of employees worldwide have received options granted in the year.

At 31 December 2000 the following options over ordinary shares of the Company granted to employees were outstanding:

Exercise period	Date of Grant	Number of shares	Exercise price (pence)
Systems Union Group plc Employee Share Option Scheme (1999)			
15 June 2000 – 28 February 2010	28 February 2000	22,267	352.5
6 July 2000 – 27 June 2010	27 June 2000	881,763	63.0
9 October 2003 – 9 October 2010	9 October 2000	150,000	55.0
26 October 2003 – 26 October 2010	26 October 2000	4,522,500	51.5
7 November 2003 – 7 November 2010	7 November 2000	100,000	53.0
20 December 2003 – 20 December 2010	20 December 2000	721,000	70.5
		6,397,530	

21. Called up share capital (continued)

Exercise period	Date of Grant	Number of shares	Exercise price (pence)
Systems Union Group plc Pre-Float Options			
1 December 1999 – 30 September 2001	6 May 1998	433,336	5.0
26 July 2002 – 26 July 2006	26 July 1999	125,000	23.6
3 November 2002 – 3 November 2006	3 November 1999	540,000	23.6
19 November 2002 – 19 November 2006	19 November 1999	5,625	25.0
		1,103,961	
Pegasus Group plc Employee Share Save Scheme			
1 November 2000 – 30 April 2001	13 June 1997	4,520	117.0
1 July 2002 – 31 December 2002	13 June 1997	24,984	117.0
1 November 2001 – 30 April 2002	1 October 1998	12,753	104.0
1 November 2003 – 30 April 2004	1 October 1998	9,948	104.0
		52,205	
Oneview.net plc Approved/Unapproved Share Option Scheme			
24 May 2000 – 22 September 2009	22 September 1999	560,000	61.0
4 September 2000 – 13 June 2001	30 September 1999	122,098	61.0
29 September 2000 – 13 June 2001	26 October 1999	21,210	98.0
30 August 2000 – 13 June 2001	25 February 2000	240,827	322.5
		944,135	
Systems Union Employee Share Scheme			
3 May 2000 - 7 May 2009	7 May 1999	361,064	108.0
3 May 2000 – 1 April 2010	1 April 2000	221,702	108.0
		582,766	
Total of options outstanding to employees and ex-employees (excluding directors)		**9,080,597**	

At 31 December 2000 the following options over ordinary shares of the Company granted to directors were outstanding.

Super Options – Systems Union Group plc Employee Share Option Scheme (1999)

13 December 2003 – 13 December 2010	13 December 2000	**2,000,000**	61.5

22. Share premium and reserves

Group	Share premium account £000	Merger reserve £000	Warrant reserve £000	Profit and loss account £000
At 1 January 2000	20,950	-	-	(2,113)
Retained loss for the year	-	-	-	(106,629)
Premium on share issues, less expenses	14,946	-	-	-
Arising on share for share acquisitions	-	141,067	1,892	-
Exchange adjustments	-	-	-	(523)
Transfers	-	(83,405)	-	83,405
At 31 December 2000	**35,896**	**57,662**	**1,892**	**(25,860)**

Company	Share premium account £000	Merger reserve £000	Warrant reserve £000	Profit and loss account £000
At 1 January 2000	20,950	-	-	(2,113)
Retained loss for the year	-	-	-	(107,152)
Premium on share issues less expenses	14,946	-	-	-
Arising on share for share acquisitions	-	141,067	1,892	-
Transfers	-	(83,405)	-	83,405
At 31 December 2000	**35,896**	**57,662**	**1,892**	**(25,860)**

23. Contingent liabilities

The businesses consolidated in the financial statements of Systems Union Group plc may, in the normal course of business, receive claims from customers. They contest such claims vigorously and maintain professional indemnity cover. There are, therefore, no material contingent liabilities in respect of such claims.

24. Commitments

(a) The Group and Company have no contracted capital commitments at 31 December 2000.

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

	2000		1999	
Group	**Land and buildings £000**	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	**970**	**428**	3	-
In the second to fifth years inclusive	**2,090**	**1,049**	30	110
Over five years	**1,568**	**-**	-	-
	4,628	**1,477**	33	110

	2000		1999	
Company	**Land and buildings £000**	**Other £000**	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	**36**	3	-
In the second to fifth years inclusive	-	**60**	30	110
	-	**96**	33	110

25. 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 £797,000 (1999:£2,000).

Contributions amounting to £136,000 (1999:£ Nil) were payable to the schemes and are included in creditors.

26. Reconciliation of operating loss to net cash outflow from operating activities

	Continuing operations £000	Discontinued operations £000	Total 2000 £000	1999 £000
Operating loss	(23,740)	(6,336)	**(30,076)**	(2,062)
Amortisation/impairment of intangibles	16,460	-	**16,460**	326
Reorganisation costs	(3,629)	(2,165)	**(5,794)**	-
Depreciation	2,049	144	**2,193**	156
Loss on sale of fixed assets	48	-	**48**	(2)
Decrease/(increase) in debtors	822	66	**888**	(221)
(Decrease)/increase in creditors	(4,807)	(1,227)	**(6,034)**	409
Increase in deferred income	90	-	**90**	-
Decrease in provisions	(341)	-	**(341)**	-
Net cash outflow from operating activities	**(13,048)**	**(9,518)**	**(22,566)**	(1,394)

27. Analysis of cash flows

	Note	2000 £000	1999 £000
Returns on investment and servicing of finance			
Interest received		**1,141**	24
Interest paid		**(448)**	(14)
Net cash inflow from returns on investment and servicing of finance		**693**	10
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(3,058)**	(1,674)
Purchase of investments		**(4,223)**	-
Sale of investment		**4,952**	20
Sale of tangible fixed assets		**307**	72
Net cash outflow from capital expenditure and financial investment		**(2,022)**	(1,582)
Acquisitions and disposals			
Purchase of subsidiary undertakings	29	**(9,708)**	-
Net funds acquired with subsidiary undertakings		**2,016**	-
Sale of discontinued operations	30	**9,000**	-
Net funds disposed with discontinued operations		**(142)**	-
Net cash inflow from acquisitions and disposals		**1,166**	-
Management of liquid resources			
Movement in short term deposits		**15,028**	(19,028)
Financing			
Issue of ordinary share capital		**15,277**	22,234
Debt due within one year:			
Repayment of bank loans		**(2,300)**	-
Capital element of finance lease rental payments		**-**	(94)
Net cash inflow from financing		**12,977**	22,140

28. Analysis of net funds

	1 January 2000 £000	Acquisitions £000	Cash flows £000	Disposals £000	Exchange movement £000	31 December 2000 £000
Net cash at bank and in hand	84	2,016	3,221	(142)	(44)	5,135
Short term deposits	19,028	-	(15,028)	-	-	4,000
Cash and liquid securities	19,112	2,016	(11,807)	(142)	(44)	9,135
Secured bank debt	-	(7,600)	2,300	-	-	(5,300)
Finance leases	(54)	-	54	-	-	-
Total net funds	**19,058**	**(5,584)**	**(9,453)**	**(142)**	**(44)**	**3,835**

29. Purchase of subsidiary undertakings

	Pegasus Group plc £000	Systems Union Holdings Limited £000	freecom.net GB plc £000	Other £000	Total 2000 £000
Fair value of consideration given:					
Cash	-	7,000	-	-	7,000
Acquisition costs	971	1,029	629	79	2,708
Shares allotted	50,055	18,284	74,638	1,039	144,016
Shares held in trust	-	-	(6,300)	-	(6,300)
Liability for share options	97	667	1,128	-	1,892
	51,123	26,980	70,095	1,118	149,316
Net cash acquired	(1,917)	1,763	(1,540)	(322)	(2,016)
Other net (assets)/liabilities acquired	(9,453)	15,565	278	257	6,647
Goodwill	**39,753**	**44,308**	**68,833**	**1,053**	**153,947**

The subsidiary undertakings acquired during the year absorbed £15,499,000 of the Group's net operating cash flows, paid £298,000 in respect of bank interest, £225,000 in respect of taxation and £491,000 for capital expenditure. Details of these acquisitions are outlined in Note 20.

30. Sale of discontinued operations

	CSM Limited £000	freecom.net GB plc £000	Other £000	Total 2000 £000
Net assets disposed of:				
Goodwill	-	68,833	1,039	**69,872**
Fixed assets	156	626	14	**796**
Debtors	765	1,116	151	**2,032**
Cash	-	52	90	**142**
Creditors	(592)	(1,202)	(234)	**(2,028)**
Deferred income	(1,411)	-	-	**(1,411)**
	(1,082)	69,425	1,060	**69,403**
Profit/(loss) on disposal	10,082	(70,425)	(1,060)	**(61,403)**
	9,000	(1,000)	-	**8,000**
Satisfied by:				
Cash	9,000	-	-	**9,000**
Investment in call option	-	(1,000)	-	**(1,000)**
	9,000	(1,000)	-	**8,000**

The discontinued operations sold during the year absorbed £7,280,000 of the Group's net operating cash flows, paid £14,000 in respect of bank interest and £123,000 for capital expenditure.

31. Related party disclosures

In February 2000, the Company acquired the property known as eCommerce House, Oakfield Industrial Estate, Eynsham, Oxfordshire, OX8 1TH from Bob Morton, the Chairman for the sum of £350,000 plus stamp duty and costs.

The transaction was overseen by the Independent Directors and an open-market valuation obtained from Smith-Woolley (Chartered Surveyors) of £350,000 was used as the basis of the purchase. Given the nature of the transaction, shareholder approval was sought and obtained at a duly convened EGM of the Company on 31 January 2000.

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 Friday 25 May 2001 at 12.30pm to transact the following business:

Ordinary Business

1. To receive and consider the report of the directors and audited accounts of the Company for the year ended 31 December 2000 together with the report of the auditors.
2. To re-elect John Leyland Pemberton who has been appointed since the last Annual General Meeting and who retires pursuant to Article 87.1 of the Company's Articles of Association and who, being eligible, offers himself for re-election, as a director.
3. To re-elect 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 its remuneration.

Special Business

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

5. That the directors be and they are hereby authorised, in substitution for any other authority previously conferred upon them, generally and unconditionally pursuant to Section 80 of the Companies Act 1985 ('the Act') to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £1,720,204 (being 33.3% of the total nominal value of the shares in issue at the date of this notice) **provided that:**

   (i) this authority shall expire fifteen months from the date of this resolution or at the Annual General Meeting of the Company to be held in 2002 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 £258,030 (being five 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 10,300,000 (representing approximately ten per cent of the Company's issued ordinary share capital);

   (ii) the minimum price which may be paid for such shares is 5p per share (exclusive of expenses);

   (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than five per cent above the average of such share's middle market quotation as derived from the Alternative Investment Market of the London Stock Exchange ('AIM') for the five business days immediately preceding the day on which the contract is entered into, being days on which AIM is open for the transaction of business.

   The authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2002 or, if earlier, 15 months after the date of the passing of this resolution, unless such authority is renewed, varied or revoked prior to such time; and the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By Order of the Board
P G Larking,
Secretary
5 April 2001

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

Notes to the notice of the Annual General Meeting

1. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

2. A form of proxy is enclosed. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting in person.

3. To be effective the instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority certified notarially or in some other way approved by the Board, shall be deposited at the offices of the Company's registrars, Capita IRG plc, Proxy Department, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time of the holding of the meeting.

4. Copies of all contracts of service under which directors are employed by the Company or any of its subsidiaries are available for inspection at the Company's registered office during business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the conclusion of the Annual General Meeting and will also be available for inspection at the place of the meeting from fifteen minutes before it is held until its conclusion.