vocalis

putting voice to work

Corporate Statement

Vocalis is one of the UK's leading providers of voice driven business solutions to the call centre industry. Our solutions, based on our own and third party "best of breed" technologies, give our customers proven financial and operating benefits and competitive advantages. Vocalis solutions are sold on the basis of return on investment, addressing business issues to improve our customers' efficiency within these organisations.

Vocalis is putting voice to work.

Chairman's Letter

Dear Shareholder

The year to 31 March 2002 has been one of significant progress for Vocalis providing the Group with a secure base from which to enter the new financial year.

The Group started the year possessing a strong technology but without the commercial focus needed to translate its technological expertise into sales and sustainable profitability. During the year we introduced a focused strategy aimed at meeting the specific requirements of our marketplace and the demands of our customers. We made significant operational and personnel changes. I am pleased to report that we are already enjoying the first commercial successes as a result of these major changes.

Results

Against a background of continued harsh trading conditions, and reflecting a period during which we introduced but did not realise the full benefit of key operational changes, turnover was lower at £1.7m, against £2.7m last year. On 19 March 2002 we announced several major contract wins the revenue for which will be recognised in the new financial year. In response to the realignment of our cost base, the loss for the year was reduced to £3.8m (2001: £7.1m, after a £1.4m charge for closure of the managed service business).

Placing

In December 2001 we issued just under 93 million new shares, raising £4.1m (net) for the Company. As set out in the circular to shareholders, the Placing provided the working capital to allow the implementation of our revised strategy and introduced a number of significant institutional shareholders to the Group. In welcoming them I would also like to take this opportunity to thank all our shareholders for their support during the recent difficulties and to confirm our total commitment to seeking to deliver increases in shareholder value for them.

People

Following the resignation of Charles Halle in July 2001, Paul Wright assumed the role of Chief Operating Officer. On 1 January 2002 Paul was appointed Chief Executive, a reflection of his success in progressing the development and implementation of our revised strategy.

In March we further strengthened the team through the appointment of Richard Watrasiewicz as Operations Director. Richard joined from TCA Consulting Ltd (part of the Terence Chapman Group plc) where he was a director of the Retail Financial Services practice.

Minesh Patel, Technical Director, left the Group at the end of the year to pursue other opportunities. Minesh was a founder member of Vocalis and we thank him for his contribution during his many years with the Group.

Roy Cotterill, who intended to retire from the Group in July 2001, extended his term as non-executive director at the Board's request. He will now be standing down at the Annual General Meeting. His vast commercial experience has proved to be invaluable to the Group in the last nine years both as Chairman and as a non-executive director. We thank him for his support and wish him well for the future.

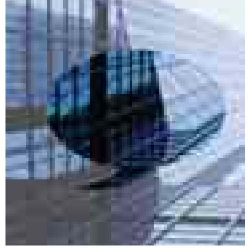
On behalf of the Board I should like to thank all of our staff for their continued commitment during a year of tremendous change and for the way in which they have embraced the commercial focus following our September 2001 relaunch.

We now have in place a strong management team, with appropriate experience and skills, to take the Group forward into our target markets.

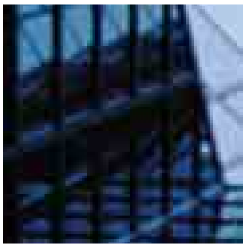
Prospects

Vocalis is one of the UK's leading providers of voice driven solutions and we enter the current year a strong organisation pursuing a clear and focused strategy. Early progress suggests the changes we have introduced will lead to success and we look forward with increasing confidence.

Ken Hill
Chairman



Operational and Financial Review



"Vocalis is now a product and solutions led Company focused on Call Centre markets."

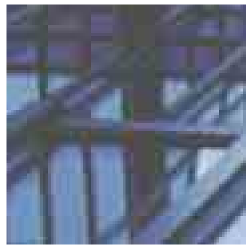
The financial year to 31 March 2002 saw Vocalis undertake fundamental changes in order to establish a sound, commercial base on which to develop a successful UK and European business and from which to deliver value to shareholders and customers in our target markets.

Strategy

During the period we focused our business to address the needs of UK corporations in their interaction with customers by telephone, transforming Vocalis from a pure technology company developing its own proprietary software, to a market driven business solutions provider.

Vocalis is now a product and solutions led company focused on Call Centre markets, with initial targets within the Financial Services, Utilities and Telecom sectors. These are large markets where call centre operations are central to customer interaction and where Vocalis can offer solutions that provide financial and other tangible benefits.

SpeechWare™, the Vocalis speech recognition engine, is the core technology used in our solutions which adopt a best of breed



THE VOCALIS MODULAR APPROACH – FINANCIAL SERVICES

Account information
- change of address
- order bill/statement
- loyalty scheme
- mini statement
- recent transactions
- stop cheques
- lost/stolen card reporting

Account transactions
- bill payment
- account transfers
- defer payments
- order cheque book
- standing orders

Information services
- mortgage information
- brochure request
- currency conversion
- accounts available
- interest rates
- opening times
- location information

Agent assistance
- connect to agent
- address transcription
- whisper transfer

approach to related technologies and use industry standard components. As part of this standardisation we joined the VoiceXML Forum last year, the industry body responsible for promoting the understanding and use of the Voice Extensible Markup Language (VoiceXML) standard.

Our repositioned business was successfully launched at the London Stock Exchange Conference Centre on 20 September. There we were joined by S2 Systems, a leading provider of back-end transaction software for the financial services market and by Eircom, a leading provider of directory enquiries in Ireland and a Vocalis call centre customer.

Vocalis solutions

Vocalis solutions are based on standard modules that have been developed to address the needs of call centres. Working with our customers, Vocalis creates tailored dialogues that integrate these modules thereby creating an individual solution based on standard Vocalis and third party products.

Our approach offers significant benefits to Vocalis customers. The use of standard products reduces customer risk and implementation leadtimes, providing cost effective, high quality, flexible solutions. It also reduces development time and costs which, together with our inherent and unrivalled expertise in the use of the English language, gives us a clear competitive advantage in our target markets.

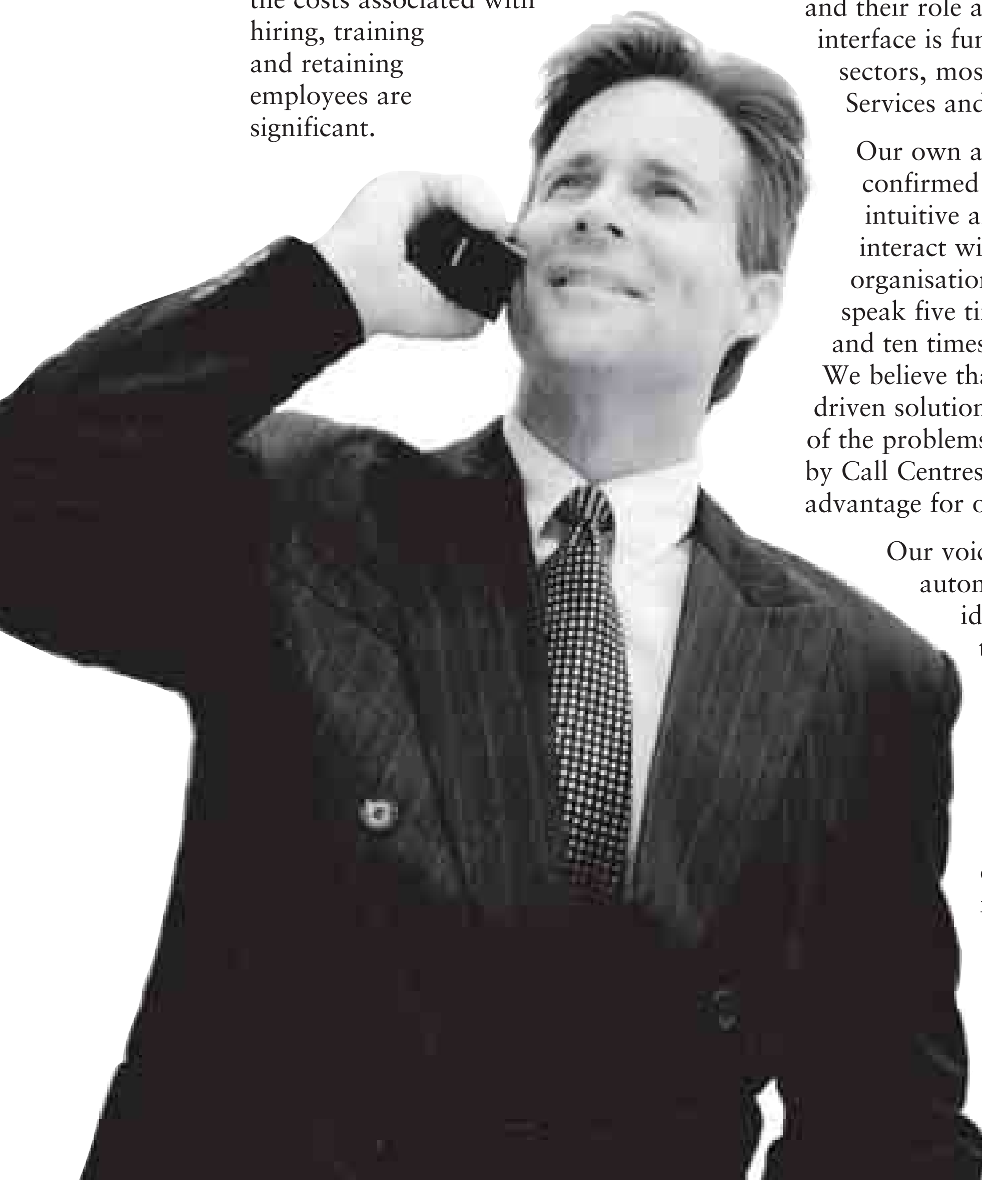
Operational and Financial Review

"A voice driven solution can deliver competitive advantage for our customers."

The market

Our strategy recognises that after a decade of explosive growth, the Call Centre market, of which the UK is the largest in Europe, faces a number of critical issues.

Call Centres are becoming increasingly popular but with annual staff turnover rates approaching thirty per cent and an almost insatiable need for more people, the costs associated with hiring, training and retaining employees are significant.



Customer expectations continue to increase and, as a result, dependence on call centres and their role as the primary customer interface is fundamental to many business sectors, most notably in Financial Services and Utilities.

Our own and independent research has confirmed that voice remains the most intuitive and simple way for people to interact with businesses and other organisations, not least because people speak five times faster than they can type and ten times faster than they can write. We believe that the adoption of a voice driven solution will not only address many of the problems currently being experienced by Call Centres but can deliver competitive advantage for our customers.

Our voice driven solutions automate many basic customer identification and verification tasks currently performed by call centre operators. They provide a flexible alternative to the increasingly unpopular "touch-tone" solution utilised in many call centres, shortening the operators' time per call and increasing the number of

calls that can be handled by each operator. Vocalis solutions are sold on the basis of return on investment, addressing business issues to improve our customers' efficiency within these organisations.

Customers

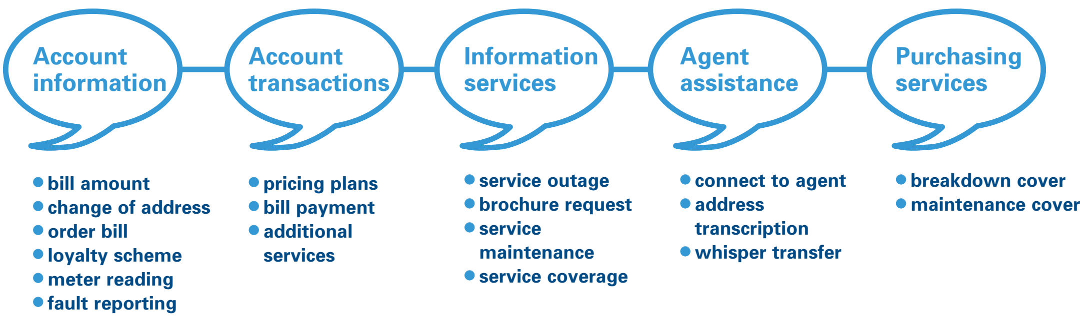
The final quarter of the year saw early signs of the success of our new strategy with the award of a number of new contracts.

We are providing Chelsea Building Society with a voice driven telephone banking solution for money transfers, balance enquiries and recent transaction reporting.

Powergen is to introduce a complete voice driven solution over the next twelve months with applications such as meter reading, direct debit changes and balance enquiries. Vocalis is providing both the solution and consultancy.

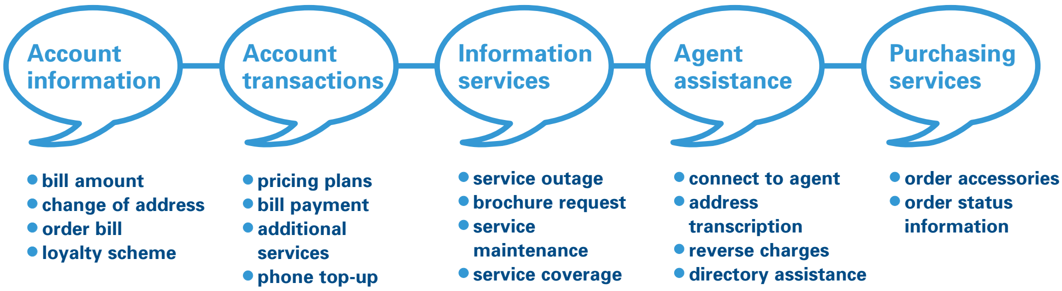
Abbey National, an existing Vocalis client, is continuing with its telephone banking system and during the final quarter of the year signed an order for ongoing maintenance and support. The telephone banking solution now handles over 1.5 million calls every month.

THE VOCALIS MODULAR APPROACH – UTILITIES



Operational and Financial Review

THE VOCALIS MODULAR APPROACH – TELECOMS



In addition, delivery of contracts through Ericsson, including those to Eircom, a provider of directory enquiries in Ireland, Telenor Mobile, one of Norway's telecommunications suppliers and Stet Hellas, a mobile telecoms operator in Greece, were completed during the year.

Feedback from our customers is positive and our order pipeline is encouraging.

Employees

In order to underpin our commercial strategy the Company has changed the balance of its staff. Consultancy and Customer Service operations have been set up to deliver and support solutions to our customers. We have invested in staff with experience in our target sectors and realigned our technical expertise to the extent that over fifty per cent of our staff have regular interaction with customers and prospects, a level that will continue to grow in the new financial year.

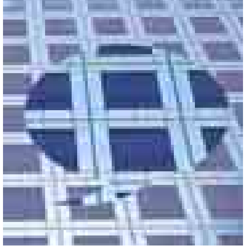
Financial review

In implementing our strategy based on the call centre market and standardisation we focused on reducing our cost base, enhancing value for shareholders without limiting our ability to take advantage of opportunities offered by our market place. Monthly overheads have been lowered from a high of £700,000 per month in March 2001 to a level of £400,000.

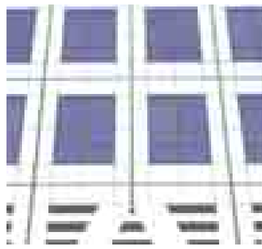
As we moved from the in-house development of a range of proprietary technology to focus on our core SpeechWare™ technology in conjunction with third party products, we reduced expenditure on research and development. As part of this change we have ceased the development of proprietary software for applications where appropriate industry standard products already exist. Research and development expenditure fell from £2.7m for the year to 31 March 2001 to £1.3m for the year just ended. Vocalis continues to have extensive intellectual property rights and maintains a strong research and development capability, which is focused on the future commercial needs of the market place.

The successful fund raising in December 2001 provided the Group with a strong financial base. Of the £4.1m raised, £4.0m remained on the Balance Sheet at the year end.

At 31 March 2002, the Group has, subject to agreement by the Inland Revenue, tax losses of £16m available for offset against future taxable profits in the United Kingdom.



"Vocalis is well positioned to provide valuable, cost effective solutions whilst delivering value to the shareholders."



Shareholders' return
The loss per share for the financial year under review, which was also the diluted loss per share, was 5.4p compared to a loss per share, basic and diluted, of 15.8p last year. The directors do not propose the payment of a dividend.

Prospects
A strong business need for voice driven solutions in the Call Centre market has been identified by independent market research and confirmed by many leading organisations in the financial services, utility and other sectors who use large call centres. Following the changes made last year, Vocalis is well positioned to provide valuable, cost effective solutions which can bring real benefit to organisations in this substantial market whilst delivering value to shareholders.

Paul Wright

Paul Wright
Chief Executive

Vocalis Overview

THE VOCALIS MODULAR APPROACH – EXAMPLE CALL CENTRE MODULES

Account information
- balance enquires
- change of address
- order statement/bill

General information
- opening times
- location
- contact details

Agent assistance
- connect to an agent
- address identification
- call routing

Purchasing services
- order accessories
- latest pricing
- order status

- **The cost of staff loss in the call centre amounts to more than £1.1 billion per year**
- **The Call Centre Association estimates that £12 billion is spent by UK businesses on call centres each year**
- **Cutting customer defection by just 5 per cent has the effect of boosting profits between 25 and 95 per cent**
- **Two million people in Britain now work in call centres**
- **80 per cent of business leaders see customer loyalty as one of the most important ways to evaluate success**
- **Customer satisfaction and retention a major aim for our clients**

Financial Services

The traditional notion of a lasting relationship seems distant in today's digital marketplace for financial services. Customers, once loyal for life, will chop and change financial service provider just because the call centre is too busy to handle their call.

CLIENTS

11811

npower

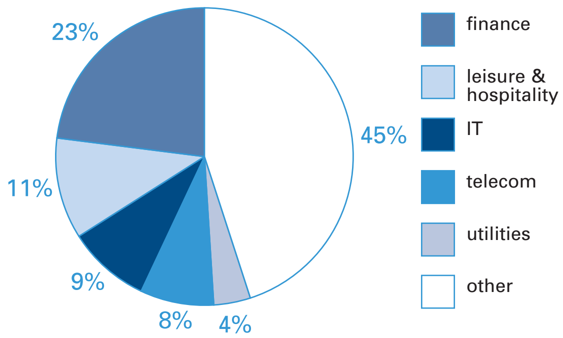
Chelsea Building Society

Abbey National because life's complicated enough.

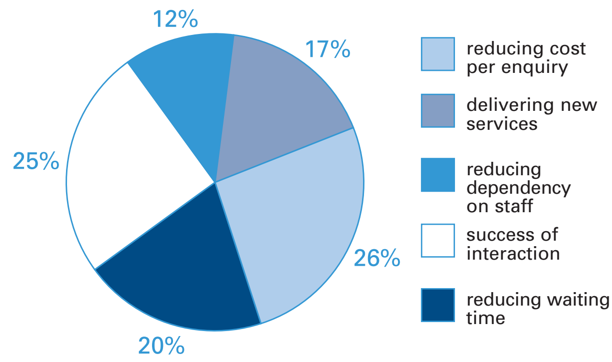
Anglian Water

POWERGEN

CALL CENTRE MARKET BY SECTOR



CALL CENTRE PRIORITIES FOR CUSTOMER HANDLING



Utilities

The deregulation in the Utility market has inevitably heightened competition. Utility companies are constantly looking to add value to their service offerings, and to improve their customer services.

Telecoms

The telecommunications sector has gone from providing one core service to offering a multitude of diverse applications. Therefore the future of the European telecommunication industry lies in providing added-value services that distinguish between providers.

For more information on the company, case studies and to experience demonstrations of our solutions visit our website at **www.vocalis.com**

Board of Directors

Ken Hill
Non-executive Chairman, age 61
Joined the Board of Vocalis as a non-executive director in April 1999 and was appointed Chairman in December 2000. He is Vice Chairman of City of Exeter Orchestra, is Chairman of Eden Project Ltd and a trustee of Westcountry Rivers Trust. He was previously Group Finance director of Pennon Group plc.

Paul Wright
Chief Executive, age 45
Joined Vocalis as Finance director in February 2000. He has many years of UK and international experience in rapidly growing financial services companies. Previous senior management roles include CWB Systems Services plc, Rolfe and Nolan plc and Exco International Plc.

Roy Cotterill
Non-executive director, age 66
Joined the Board of Vocalis in June 1994. He worked with GEC in a variety of senior management positions including as managing director of subsidiaries based in Australia, India, New Zealand, Pakistan and South Africa. He was previously Chairman of Electrocomponents plc and Telemetrix plc.

Colin Garrett
Senior non-executive director, age 45
Joined Vocalis as a non-executive director in March 2001. He was formerly the Head of Plc Advisory at PricewaterhouseCoopers in the Midlands. Previously, Colin was a director of Corporate Finance at Albert E Sharp. He has advised a number of private and quoted technology companies and worked closely with managements on their strategy and plans for growth. Colin is a non-executive director of AVEVA Group plc, Mettoni Group plc and Protagona plc. He is also non-executive Chairman of 3GComms Limited and ZBD Displays Limited.

Stephen Lawrenson
Non-executive director, age 42
Joined Vocalis as a non-executive director in March 2001. He was formerly a director of WeatherXchange Ltd and Managing Director of the Met Office Commercial Division. Prior to this he was the Head of Commercial Development at Canon Research Centre Europe. Before joining Canon, Stephen was Head of Worldwide Commercial Development at News Datacom (now NDS Ltd), the technology arm of News Corporation.

Richard Watrasiewicz
Operations director, age 37
Joined Vocalis in April 2002 with overall responsibility for operations and delivery of customer solutions. He has many years experience of successful solutions deployment across financial services. Previous roles include TCA Consulting Ltd (part of the Terence Chapman Group plc) where he was a director of the Retail Financial Services practice and EDS (UK) Limited.

S W Lawrenson is Chairman of the Remuneration Committee

C Garrett is Chairman of the Audit Committee and Senior Independent director

K Hill is Chairman of the Nomination Committee

All non-executive directors are members of the Remuneration, Audit and Nomination Committees.

Directors' Report

The directors present their Annual Report on the affairs of the Group, together with the Financial Statements and auditor's report for the year ended 31 March 2002.

Principal activities

The principal activities of the Group comprise the development, marketing and supply of voice driven solutions to businesses using call centres to communicate with their customers. The Group is focused on banking, utilities and telecommunications.

Results

The audited Financial Statements for the year ended 31 March 2002 are set out on pages 20 to 37. The loss for the year of £3.8m (2001: loss £7.1m) has been transferred to reserves. The directors do not recommend the payment of a dividend (2001: £Nil).

A detailed review of the year's activities and the Group's future prospects is given in the Chairman's Statement and Operational and Financial Review on pages 2 to 9.

Research and development

Whilst re-focusing towards a more commercially orientated organisation, Vocalis is maintaining a strong research and development capability for its core speech recognition technology. Vocalis' focus has changed from developing a range of proprietary technology products to developing its core SpeechWare™ technology in conjunction with industry standard third party products. Whilst the Group will continue to develop its SpeechWare™ products to meet the ongoing needs of the business, the directors believe that the level of pure research will be materially less than historical levels. Research and development expenditure for the year ended 31 March 2002 amounted to £1.3m (2001: £2.7m).

Directors and their interests

The directors who held office at 31 March 2002 are shown on page 12.

Details of the directors' remuneration and interests are shown in Note 6 to the Financial Statements. At no time during the financial year has any director had an interest in a material transaction with the Company, its subsidiaries, or other parties.

R J Watrasiewicz who was appointed as director on 18 April 2002 retires at the Annual General meeting and, being eligible, offers himself for reappointment. Mr K L Hill and Mr P K Wright retire by rotation at the Annual General Meeting and, being eligible, offer themselves for reappointment.

Creditor payment policy

The Group's policy is to pay suppliers in accordance with any specific agreements, and in other cases at the end of the month following that in which the supplier's invoice is received. The policy is made known to the staff who handle payments to suppliers and to all suppliers on request. Amounts payable at the end of the year represented 27 days' (2001: 37 days') purchases.

Substantial shareholdings

On 11 June 2002, the Company had been notified, in accordance with Sections 198–208 of the Companies Act 1985 of the following interests in the ordinary share capital of the Company:

Prudential Plc	7.82%
Herald Investment Trust Plc	6.73%

Employment policy

The Group's employment policies, including the commitment to equal opportunity, are designed to attract, retain and motivate the best staff regardless of sex, religion or disability. The Group places considerable value on the involvement of its people and continues its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group through formal and informal meetings. The majority of employees participate in the Group share option schemes.

Environmental policy

In meeting our customers' requirements, and corporate citizen, the Vocalis Group will seek to position its products and operations in compliance of the current environmental standards for the industry and current legislation.

Directors' responsibilities

United Kingdom 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 of the Group for that period.

After making enquiries, the directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements. In preparing the 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; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements.

Other matters

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Annual General Meeting

The Annual General Meeting of the Company will be held on 17 July 2002 at 12:00 noon at Chaston House, Great Shelford, Cambridge CB2 5LD. Details of the business to be conducted at the Annual General Meeting are set out in the Notice of Annual General Meeting dated 11 June 2002. As required by the Companies Act 1985, the directors will seek authority from the shareholders to allot relevant securities up to an aggregate nominal value of £2,315,906.50 (being one third of the issued share capital as at the same date). The directors have no present plans to issue shares using this authority, save for the allotment of Ordinary Shares in the event of the exercise of options under the Executive Share Option Schemes. In addition, authority is being sought from shareholders for the disapplication of the statutory pre-emption rights in respect of the allotment of new shares pursuant to rights issues, open offers or otherwise for cash up to an aggregate nominal amount of £347,385.98 (being the aggregate nominal value of five per cent of the Company's issued share capital as at 31 March 2002) in accordance with the current guidelines of the Investment Committee of the Association of British Insurers and the National Association of Pensions Funds. Both of these authorities will expire on the earlier of the date at the next Annual General Meeting or 15 months from the date the Resolutions are passed.

Auditors

Grant Thornton were appointed auditors on 19 April 2002 to fill a casual vacancy in accordance with section 388(I) of the Companies Act 1985. A resolution to appoint Grant Thornton as auditors will be proposed at the next Annual General Meeting.

By order of the Board

E T Seymour
Company Secretary
11 June 2002

Corporate Governance

Statement of compliance with the Code of Best Practice

The Company has complied throughout the year with the Provisions of the Code of Best Practice set out in Section 1 of the Combined Code as annexed to the Listing Rules of the UK Listing Authority. Further explanation of how the principles have been applied is set out below and, in connection with directors' remuneration, in the Remuneration committee Report. The Board reviews the Company's regulatory compliance at least twice per annum.

The Board

The Group is controlled through the Board which comprises two executive and four independent, non-executive directors, including the Chairman. Their biographical details are set out on page 12. The Board considers all of its non-executive directors to be independent. The Board meets formally on a regular basis to review trading performance and forecasts. It also holds meetings to review strategy and Company policy. Matters reserved for the Board's decision include the approval of preliminary and interim results, corporate objectives, strategy and the annual budget, significant transactions and matters relating to share capital. Regular and ad hoc reports and presentations to the Board ensure that directors are supplied in a timely fashion with the information they need. They may take independent professional advice at the Company's expense. No such advice was sought during the financial year under review. All directors are subject to election by shareholders at the first opportunity after their appointment and to re-election thereafter at intervals of no more than three years.

Board committees

The Board has delegated specific responsibilities to its committees whose terms of reference it sets. The main committees are the Audit Committee, Chairman C A Garrett, the Remuneration Committee, Chairman S W Lawrenson, and the Nomination Committee, Chairman K L Hill. The Audit Committee, consisting of all the non-executive directors, meets at least twice a year with the external auditors. The Audit Committee considers and recommends the appointment and fees of external auditors, reviews the conduct and control of the annual external audit, reviews the external auditors' management report and considers management's responses to matters raised therein. The Remuneration Committee consisting of all the non-executive directors meets at least twice a year. Its role is to agree a framework of policies and to determine within it all remuneration matters for the executive directors. The report of the Committee is set out on page 18. The Nomination Committee, consisting of all non-executive directors, meets when required, to consider all new directors' appointments.

Dialogue with institutional shareholders

The directors seek to build on a mutual understanding of objectives between the Company and its institutional shareholders by making an annual strategic presentation to institutional investors and analysts, communicating regularly throughout the year and providing comprehensive training to managers involved in investor relations.

Maintenance of a sound system of internal control

The directors recognise that they have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance. The key features of the internal financial control system that operated throughout the period covered by the Financial Statements are described below. The directors believe that the Group has complied in full with the requirements of the Turnbull Report.

Financial and operational control

Detailed annual budgets are prepared and are approved by the Board of directors. The Board reviews monthly financial accounts and forecasts. Progress is compared to budget and trends and variances are analysed. There are written policies and procedures for the approval of capital and other expenditures and for the monitoring and control of working capital.

Risk management

The Board is responsible for identifying and evaluating business risks and for developing plans to manage them. The directors consider that there has been no material weakness in internal control that has caused any material loss, contingency or uncertainty requiring disclosure in the Financial Statements.

The Turnbull Report

The Board of Vocalis Group plc has taken the necessary steps to implement the guidance contained within the Turnbull Report. The Board has applied Principle D.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with Internal Control: Guidance for directors on the Combined Code.

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

In compliance with Provision D.2.1 of the Combined Code, the Board continuously reviews the effectiveness of the Group's system of internal control. The Board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The Board has also performed a specific risk assessment review for the purpose of this Annual Report. This assessment considers all significant aspects of internal control arising during the period covered by the report. The Audit Committee assists the Board in discharging its review responsibilities.

By order of the Board

E T Seymour
Company Secretary
11 June 2002

Remuneration Committee's Report

The Group has complied throughout the year with the provisions of the Code as disclosed in the Corporate Governance statements and has applied the Principles of Good Governance relating to the directors' remuneration as set out below.

Remuneration policy

The compensation of all executive directors is determined by the Remuneration Committee and is designed to attract and retain directors of an appropriate calibre without paying more than necessary. For this purpose the Committee has regard to packages offered by comparable companies, using data provided by independent advisers. The Committee also seeks to align the interests of the executive directors with those of the shareholders through a combination of appropriate performance related bonuses and long term incentive schemes. In framing its policy, the Committee gives full consideration to Principle B1 of the Combined Code appended to the UKLA Listing Rules. Individual directors are not involved in any discussions about their own remuneration.

Executive directors' remuneration

Details of directors' remuneration and share option schemes are given in Note 6 to the Financial Statements. The individual components of the remuneration package are set out below.

Basic salary

Executive directors are paid a salary for their work as executives and are not paid fees in respect of their position as directors. Basic salaries are reviewed annually and in respect of any individual changes in position or responsibility.

Performance related bonuses

The Group operates an annual bonus arrangement linked to the financial performance of the business and achievement of personal objectives. Financial targets include achievement of budgeted sales, profit or loss and cash flow.

Pension contributions

Contributions are made to the Group's defined contribution pension scheme or to personal pension schemes of the individual directors. Other than the basic salary no element of the remuneration package is pensionable.

Share option schemes

The Group's policy is to issue share options at appropriate intervals in order to motivate and retain employees and to align their interests with those of the shareholders. The Group operates two executive share option schemes, one of which is approved by the Board of the Inland Revenue, an Executive Management Incentive Scheme (under the No. 2 Executive Scheme) and a Save As You Earn share option scheme.

Under the executive schemes, the directors may grant options to employees and the Remuneration Committee to directors, at an exercise price not less than the market price at the time of grant. Under normal circumstances such options are only exercisable between the third and the tenth and the third and the seventh anniversary of the date of grant (for the No. 1 and No. 2 Schemes respectively). Exercise of these options may be made subject to the attainment of performance conditions. The Long Term Incentive Plan ceased to operate from 31 March 2002, and all previous awards under this plan lapsed on that date.

Benefits

Other benefits comprise a car or car allowance, medical expenses insurance, life assurance and disability insurance.

Non-executive director remuneration

Non-executive directors are paid a fee for their services and are not eligible for incentive compensation, the grant of share options or to join the Group's pension schemes. Fees are determined by the Board of directors as a whole within the limits stipulated in the Articles of Association.

Service contracts

All the executive directors are employed under service contracts within the Group with entitlement to twelve month's notice of termination.

All non-executive directors have fixed term contracts. The longest of these contracts expires on 26 March 2004.

S W Lawrenson
Remuneration Committee Chairman
11 June 2002

Auditor's Report

Report of the independent auditors to the members of Vocalis plc

We have audited the Financial Statements of Vocalis plc for the year ended 31 March 2002 which comprise the principal accounting policies, the consolidated Profit and Loss Account, the Balance Sheets, the consolidated Cash Flow Statement, the consolidated statement of total recognised gains and losses and the Notes to the Accounts. These Financial Statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Financial Statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements, United Kingdom auditing standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the Financial Statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the Financial Statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. This other information comprises only the directors' report, the Chairman's Letter, the Operational and Financial Review, and the Corporate Governance statement and the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 at 31 March 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP
11 June 2002

Consolidated Profit and Loss Account

for the year ended 31 March 2002

	Notes	2002 £000	2001 £000
Turnover	1		
Continuing		1,735	1,982
Discontinued		—	719
		1,735	2,701
Cost of sales		(754)	(1,025)
Gross profit		981	1,676
Other operating expenses (net)		(5,055)	(7,604)
Operating loss			
Continuing		(4,074)	(4,152)
Discontinued		—	(1,776)
		(4,074)	(5,928)
Cost of closure of managed service businesses	2	(195)	(1,446)
Loss on ordinary activities before interest and finance charges		(4,269)	(7,374)
Bank interest receivable		96	250
Interest payable	3	(12)	(20)
Loss on ordinary activities before taxation	4	(4,185)	(7,144)
Taxation	7	388	—
Loss for the year	18	(3,797)	(7,144)
Loss per share, basic and diluted – pence	9	(5.41)	(15.82)

The accompanying Notes are an integral part of this Consolidated Profit and Loss Account.

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 March 2002

	2002 £000	2001 £000
Loss for the year	(3,797)	(7,144)
Loss on foreign currency translation	—	(109)
Total recognised losses for the year	(3,797)	(7,253)

The accompanying Notes are an integral part of this Consolidated Statement of Total Recognised Gains and Losses.

Balance Sheet

as at 31 March 2002

	Notes	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Fixed assets					
Intangible assets	10	8	21	—	—
Tangible assets	11	740	975	—	—
Investments	12	—	200	1,760	1,761
		748	1,196	1,760	1,761
Current assets					
Stocks	13	535	694	—	—
Debtors	14	471	1,121	21,977	18,466
Cash at bank		4,012	3,474	—	—
		5,018	5,289	21,977	18,466
Creditors: amounts falling due within one year	15	(965)	(1,766)	—	(579)
Net current assets		4,053	3,523	21,977	17,887
Total assets less current liabilities		4,801	4,719	23,737	19,648
Creditors: amounts falling due after more than one year	15	(38)	(41)	—	—
Net assets		4,763	4,678	23,737	19,648
Capital and reserves					
Called-up share capital	17	6,948	2,316	6,948	2,316
Share premium account	18	16,789	17,332	16,789	17,332
Other reserves	18	1,070	1,070	—	—
Profit and loss account	18	(20,044)	(16,040)	—	—
Shareholders' funds – equity interests	19	4,763	4,678	23,737	19,648

The accompanying Notes are an integral part of these Balance Sheets.

These accounts were approved by the Board of directors on 11 June 2002 and were signed on its behalf by:

K L Hill
Director

P K Wright
Director

Consolidated Cash Flow Statement

for the year ended 31 March 2002

	Notes	2002 £000	2001 £000
Net cash outflow from operating activities	20	**(3,862)**	(5,917)
Returns on investments and servicing of finance			
– interest received		**96**	250
– interest paid – finance leases		**(6)**	(10)
– other loans		**(6)**	(11)
Net cash inflow from returns on investments and servicing of finance		**84**	229
Capital expenditure and financial investment			
– purchase of tangible fixed assets		**(95)**	(305)
– purchase of trade investment		**—**	(200)
– taxation		**388**	—
Net cash inflow/(outflow) from capital expenditure and financial investment		**293**	(505)
Cash outflow before management of liquid resources and financing		**(3,485)**	(6,193)
Management of liquid resources			
– (increase)/decrease in short term deposit		**(700)**	1,250
Financing			
Proceeds from issue of Ordinary Shares		**4,631**	5,090
Costs of issue of Ordinary Shares		**(542)**	(93)
Repayment of secured loan		**(3)**	(5)
Capital element of finance lease repayments		**(63)**	(103)
Net cash inflow from financing		**4,023**	4,889
Decrease in cash in the year	21	**(162)**	(54)

The accompanying Notes are an integral part of this Consolidated Cash Flow Statement.

Statement of Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below. The Company has adopted FRS 17 (Retirement Benefits), FRS 18 (Accounting Policies) and FRS 19 (Deferred Tax), these do not have any impact on the Financial Statements.

Basis of accounting
The Financial Statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation
The Group's Financial Statements consolidate the Financial Statements of Vocalis Group plc and its subsidiary undertakings, Vocalis Limited, Vocalis Services Ltd and Vocalis Malaysia SDN BHD, The Talking Network Ltd and The Talking Network Inc.

Vocalis Limited is consolidated under merger accounting principles as if the Company has always owned it. Comparative information has been prepared on the same basis. The excess of the nominal value of share capital and share premium account of Vocalis Limited over the nominal value of the shares issued by the Company to acquire Vocalis Limited is included as a difference arising on merger.

The acquisition method is used to consolidate other subsidiaries.

Intangible fixed assets
Licenses are shown at cost less provision for impairment and amortised on a straight-line basis over three years.

Tangible fixed assets
Tangible fixed assets are stated at cost less depreciation and provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold property	4% per annum
Leasehold improvements	20% per annum
Office furniture and equipment	20% per annum
Test equipment	33% per annum
Research and development equipment	33% per annum

Investments
Fixed asset investments are shown at cost less provision for impairment. In the Company Balance Sheet, for investments in subsidiaries acquired for consideration including the issuing of shares qualifying for merger relief, cost is measured by reference to nominal value only of the shares issued. Any premium is ignored.

Stocks
Stocks, comprising goods, finished goods for resale and work-in-progress are stated at the lower of cost and net realisable value. Cost is based on actual or weighted average cost, including freight and duty.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Statement of Accounting Policies

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date.

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the Balance Sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

Pension costs
The Group operates a defined contribution scheme and the amounts charged to the Profit and Loss Account represent the contributions payable in respect of the accounting year.

Research and development
Research and development costs are written off in the year in which they are incurred.

Foreign currency
Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. The Financial Statements of foreign subsidiaries are translated at the rate of exchange ruling at the Balance Sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the Profit and Loss Account.

Turnover
Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business. Where invoices are raised for stage payments, they are included in deferred income in the Balance Sheet, then released to turnover when the system has been accepted. Maintenance income is invoiced annually and quarterly in advance and is recognised in the period to which the maintenance commitment relates. The Company meets the requirements of US GAAP.

Leases
Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful economic lives.

The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the Profit and Loss Account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Finance costs
Finance costs of debt are recognised in the Profit and Loss Account over the term of the debt at a constant rate on the carrying amount.

Notes to the Financial Statements

1 Segment information

Discontinued Continuing	2002	2001		
	Total £000	operations £000	operations £000	Total £000
Turnover by destination				
United Kingdom	**377**	38	608	646
Rest of Europe	**603**	14	708	722
Far East	**26**	—	525	525
Rest of World	**729**	667	141	808
	1,735	719	1,982	2,701

All turnover originates in the United Kingdom, excepted for £Nil (2001: £36,000) which originated in the United States.

(Loss)/profit on ordinary activities before taxation, by origin				
United Kingdom	**(4,185)**	(901)	(5,368)	(6,269)
United States	**—**	(875)	—	(875)
	(4,185)	(1,776)	(5,368)	(7,144)

Net assets/(liabilities), by origin		
United Kingdom	**4,763**	4,916
United States	**1**	(238)
	4,763	4,678

The directors consider that the Group operates in one class of business.

2 Exceptional items

Exceptional items incorporate the net costs of ceasing activities in discontinued business streams.

3 Interest payable

	2002 £000	2001 £000
Finance leases	**6**	10
Other loans	**6**	10
	12	20

Notes to the Financial Statements

4 Loss on ordinary activities before taxation

	2002 £000	2001 £000
Loss on ordinary activities before taxation is stated after charging:		
Depreciation		
– owned tangible fixed assets	**317**	1,310
– held under finance leases	**56**	18
Amortisation of licences	**13**	55
Operating lease rentals		
– plant and machinery	**43**	60
– other	**219**	227
Auditors' remuneration:		
– audit fees	**28**	25
– non-audit fees	**6**	39
Research and development expenditure	**1,314**	2,724

Other fees to auditors of £49,000 (2001: £Nil) have been set off against the share premium account in respect of non-audit services.

5 Staff costs

	2002 Number	2001 Number
The average monthly number of employees (including executive directors) was:		
Sales and distribution	**37**	35
Research and development	**20**	53
Administration	**16**	20
	73	108

	2002 £000	2001 £000
Their aggregate remuneration comprised:		
Wages and salaries	**3,238**	3,246
Social security costs	**301**	376
Pension costs (Note 24)	**193**	168
	3,732	3,790

6 Directors' remuneration and interests

Directors' remuneration

	Fees £	Basic salary £	Benefits £	Performance related bonus £	Pension contributions £	**2002 Total £**	2001 Total £
Executive:							
J C Halle							
(resigned 19 July 2001)		46,940	2,516	—	22,133	**71,589**	179,864
P M Hauser							
(resigned 6 October 2000)		—	—	—	—	**—**	55,809
M P Patel							
(resigned 31 March 2002)		100,000	8,003	—	11,800	**119,803**	98,870
M E Williams							
(resigned 12 April 2001)		2,107	11	—	—	**2,118**	118,467
P K Wright		123,750	14,891	37,500	21,780	**197,921**	120,079
Non-executive:							
R C G Cotterill	30,000		—	—	—	**30,000**	30,000
C A Garrett*	—		—	—	—	**—**	—
K L Hill	30,000		—	—	—	**30,000**	22,500
R C Hook*							
(resigned 18 July 2001)	—		—	—	—	**—**	—
S W Lawrenson	25,383		—	—	—	**25,383**	—
	85,383	272,797	25,421	37,500	55,713	**476,814**	625,589
Fees to third parties	30,621					**30,621**	17,500

Annual bonuses are determined by the Remuneration Committee based on Company performance. Bonuses are capped at variable percentage of salary.

*Fees to third parties comprise amounts paid to Prelude Technology Investments Limited and Colin Garrett Associates Limited under agreements to provide the Group with the services of R C Hook and C A Garrett as non-executive directors.

One director (2001: two) was a member of a money purchase scheme and two directors (2001: two) were members of their own personal pension schemes. Contributions paid by the Group in respect of such directors are set out in the above table.

In addition to his emoluments shown above, Mr J C Halle received £137,500 as compensation for loss of office, together with £2,329 benefits in kind following his resignation from the Board. In addition to his emoluments shown above, Mr M E Williams received £82,500 as compensation for loss of office, together with £1,864 benefits in kind following his resignation from the Board.

No directors exercised share options during the year.

Notes to the Financial Statements

6 Directors' remuneration and interests (continued)

Directors' remuneration (continued)

Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for Ordinary Shares in the Company granted to or held by the directors. Details of the options are as follows:

	31 March 2001	Granted during the year	Date granted	Lapsed	**31 March 2002**	Exercise price (p)	Date from which exercisable	Expiry date
P K Wright	79,922	—	01/02/00	—	**79,922**	590.70	01/02/03	01/02/07
	5,078	—	01/02/00	—	**5,078**	590.70	01/02/03	01/02/10
	16,000	—	02/08/00	—	**16,000**	187.50	02/08/03	02/08/07
	37,333	—	02/08/00	37,333	**—**	187.50	02/08/03	02/08/10
	—	100,000	19/07/01	—	**100,000**	14.00	19/07/04	19/07/08
	—	500,000	28/12/01	—	**500,000**	6.50	28/12/04	28/12/11

In all cases, options are capable of being exercised after three years and within five years (for SAYE options), seven years (for unapproved options) or ten years (for approved options) of date of grant.

The share option schemes concerned are The Vocalis Group 1996 (No. 1) and (No. 2) Share Option Schemes and the Vocalis Group 1997, 1998, 1999 and 2000 (June and December) Share Savings Scheme. By way of comparison with the exercise prices, the middle market quotation of the Company's Ordinary Shares, as derived from the Official List of the UK Listing Authority, was 7.5p on 28 March 2002, as compared with the high and low quotations for the period of 35p and 3.75p respectively.

Directors' interests

The directors who held office at 31 March 2002 had the following interests in the shares, other than the share options, of the Company:

	2002	2001
R C G Cotterill	**190,000**	90,000
K L Hill	**111,000**	1,000
P K Wright	**125,400**	400
C A Garrett	**100,000**	—
S W Lawrenson	**50,000**	—

7 Taxation on loss on ordinary activities

Taxable losses available for offset against future trading profits, subject to approval by the Inland Revenue, is £16m (2001: £12m).

As a result of legislation allowing small and medium sized companies to claim research and development tax credits on qualifying expenditure, the Group has claimed £0.4m (2001: £Nil) which is shown as a credit to the Profit and Loss Account. This is subject to agreement with the Inland Revenue.

8 Loss attributable to Vocalis Group plc

There was no profit or loss for the financial year dealt with in the accounts of the parent Company Vocalis Group plc (2001: £Nil). As permitted by Section 230 of the Companies Act 1985, no separate Profit and Loss Account is presented in respect of the parent company.

9 Loss per share

The calculations of loss per share are based on the following losses and numbers of shares.

	2002 £000	2001 £000
Loss for the financial year	**(3,797)**	(7,144)

Weighted average number of shares used to calculate basic and diluted loss per share.

	2002 Number of shares	2001 Number of shares
	70,175,139	45,153,500

10 Intangible fixed assets

Group

	Licenses £000
Cost	
Beginning and end of year	**268**
Amortisation	
Beginning of year	247
Charge for year	13
End of year	**260**
Net book value	
Beginning of year	21
End of year	**8**

The Company has no intangible fixed assets (2001: £Nil).

11 Tangible fixed assets

Group

	Freehold property £000	Leasehold improvements £000	Office furniture and equipment £000	Test and R&D equipment £000	Total £000
Cost					
Beginning of year	83	124	978	2,222	3,407
Additions	—	53	29	13	95
Transfers to stock	—	—	—	(19)	(19)
Transfers from stock	—	—	5	56	61
Disposals	—	—	(15)	—	(15)
End of year	**83**	**177**	**997**	**2,272**	**3,529**
Depreciation					
Beginning of year	10	69	701	1,652	2,432
Charge for year	3	24	150	196	373
Transfers to stock	—	—	—	(1)	(1)
Disposals	—	—	(15)	—	(15)
End of year	**13**	**93**	**836**	**1,847**	**2,789**
Net book value					
Beginning of year	73	55	277	570	975
End of year	**70**	**84**	**161**	**425**	**740**
Leased assets included above					
Net book value					
Beginning of year	—	22	77	82	181
End of year	**—**	**12**	**50**	**—**	**62**

The Company has no tangible fixed assets (2001: £Nil).

Notes to the Financial Statements

12 Fixed asset investments

	Group 2002 £000	Group 2001 £000
Trade investment	—	200

On 27 October 2000, the Group acquired an investment in Intelleca Vocalis (Pty) Limited (formerly ComplexIT Vocalis (Pty) Limited). Following a full review of information available in September 2001 and again in March 2002 the directors provided in full against both the investment and the loan.

	Company 2002 £000	Company 2001 £000
Investments in subsidiaries		
Vocalis Limited	**1,760**	1,760
Vocalis Inc. (dissolved 11 July 2001)	—	1
Vocalis Services Ltd	—	—
Vocalis Malaysia SDN BHD	—	—
The Talking Network Ltd	—	—
The Talking Network Inc	—	—
	1,760	1,761

All investments are held at cost.

The value of shares held in Vocalis Services Ltd and The Talking Network Ltd is £1, Vocalis Malaysia SDN BHD is M$1 and in The Talking Network Inc is $10.

	Country of incorporation and operation	Percentage of equity held by the Company
Principal Group investments		
Vocalis Limited	England	100
Vocalis Services Ltd	England	100
Vocalis Malaysia SDN BHD	Malaysia	100
The Talking Network Ltd	England	100
The Talking Network Inc	USA	100
Intelleca Vocalis (Pty) Limited (formerly ComplexIT Vocalis (Pty) Limited)	South Africa	25

The principal activities of the subsidiaries comprise the development, marketing and supply of telephone call processing products based on automatic speech recognition.

13 Stocks

Group

	2002 £000	2001 £000
Work-in-progress	**158**	152
Finished goods and goods for resale	**377**	542
	535	694

The directors consider there to be no material difference between the Balance Sheet value of stocks and their replacement cost.

The Company has no stocks (2001: £Nil)

14 Debtors

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Amounts falling due within one year				
Trade debtors	**226**	599	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**21,977**	18,466
VAT	**—**	62	**—**	—
Other debtors	**69**	56	**—**	—
Prepayments and accrued income	**176**	204	**—**	—
	471	921	**21,977**	18,466
Amounts falling due after more than one year				
Trade debtors	**—**	200	**—**	—
	471	1,121	**21,976**	18,466

15 Creditors

	Group 2002 £000	Group 2001 £000	Company 2002 £000	Company 2001 £000
Amounts falling due within one year				
Obligations under finance leases	**—**	63	**—**	—
Trade creditors	**213**	369	**—**	—
Amounts owed to subsidiary undertakings	**—**	—	**—**	579
Social security and PAYE	**121**	129	**—**	—
VAT	**16**	—	**—**	—
Accruals and deferred income	**615**	1,205	**—**	—
	965	1,766	**—**	579
Amounts falling due after more than one year				
Secured loan	**38**	41	**—**	—

	Group 2002 £000	Group 2001 £000
Borrowings are repayable as follows:		
Finance leases:		
Due within one year	**—**	63
		63
Bank loan:		
Due within one year	**4**	5
Due between one and two years	**3**	5
Due between two and five years	**34**	20
Due after five years	**1**	16
	42	46
Total:		
Due within one year	**4**	68
Due between one and two years	**3**	5
Due between two and five years	**34**	20
Due after five years	**1**	16
	42	109

The long term loan is secured on the freehold property of the Group. This loan is a sterling liability, all of which is subject to a fixed interest rate.

Notes to the Financial Statements

16 Financial instruments

As permitted by FRS 13, short term debtors and creditors, and certain financial assets such as investments in subsidiary undertakings, have been excluded from the disclosures, other than the currency disclosures.

Interest rate profile

The Group has no financial assets other than sterling cash deposits of £4.0m (2001: £3.5m) which are part of the financing arrangements of the Group. The sterling cash deposits comprise deposits placed on the money market at seven day and monthly rates.

The Group's financial liabilities, totalling £42,000 at 31 March 2002 (2001: £109,000), comprise of obligations under finance leases and a secured loan, at a fixed rate sterling agreement with an interest rate as follows:

	Interest rate range 2002	Interest rate range 2001
Obligations under finance leases	**12.25% and 6.6%**	12.25% and 6.6%
Secured loan	**7% and 8%**	7% and 8%

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 31 March 2002 is set out in Note 15.

Borrowing facilities

The Group had undrawn committed borrowing facilities at 31 March 2002, in respect of which all conditions precedent had been met, as follows:

	2002 £000	2001 £000
Expiring in one year or less	**500**	1,000

Financial risk

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group does not enter into derivatives transactions.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate, liquidity and foreign currency. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year.

Liquidity risk

The Group's policy is to monitor cashflow on an ongoing basis. Short term flexibility is achieved by an overdraft facility which at the year end remained undrawn.

Fair values

The directors consider there to be no material difference between the book value and the fair value of the Group's financial instruments in either financial year.

Gains and losses on hedges

No unrecognised gains or losses existed at 31 March 2002 (2001: £Nil) in respect of the Group's financial instruments.

Market price risk

Group funds are invested in deposit accounts with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

Currency exposures

The Group undertakes a limited number of foreign currency transactions in the normal course of its operations. Where such transactions are considered material, the Group will enter into foreign currency contracts to manage foreign currency risk.

There were no significant currency exposures at 31 March 2002 (2001: £Nil) as the majority of transactions were denominated in sterling.

The Group had no material third party foreign currency assets or liabilities as at 31 March 2002.

Interest rate risk

The Group finances its operations through a mixture of equity, leasing and limited bank borrowings. The Group has a bank loan of £42,000 on a fixed interest rate, secured on a freehold property leases on fixed interest rate and borrowing facilities of £500,000 which remained undrawn at the year end.

17 Called-up share capital

Company

	2002 £000	2001 £000
Authorised		
235,500,000 (2001: 60,500,000) Ordinary Shares of 5p each	**11,775**	3,025
Allotted, called-up and fully paid		
138,954,390 (2001: 46,317,574) Ordinary Shares of 5p each	**6,948**	2,316

Nil (2001: 144,764) shares were issued in the period to holders of share options.

On 28 December 2001 the Company made a placing of 92,636,260 new Ordinary Shares of 5p each, for a total consideration of £4.1m (net).

Notes to the Financial Statements

17 Called-up share capital

Share options

There were outstanding options at 31 March 2002 to subscribe for Ordinary Shares in the Company as follows:

Number of shares under option	Exercise price (p)	Exercise period from	Exercise period to
50,000	16.07	25/09/96	16/06/03
105,000	16.07	01/02/97	01/02/04
9,100	16.07	01/04/98	01/04/05
72,538	96.50	13/07/01	13/07/08
8,443	78.00	21/07/02	21/01/03
3,678	140.70	20/10/02	20/10/06
21,322	140.70	20/10/02	21/10/09
2,827	61.00	17/12/02	17/06/03
894	303.00	07/01/03	07/07/03
79,922	590.70	01/02/03	01/02/07
5,078	590.70	01/02/03	01/02/10
16,000	187.50	02/08/03	02/08/07
4,109	254.60	31/08/03	31/08/07
15,891	254.60	31/08/03	31/08/10
9,198	179.00	07/09/03	07/03/04
110,175	179.00	28/06/02	28/06/09
39,825	99.50	28/06/02	28/06/06
632,429	14.00	19/07/04	19/07/11
242,571	14.00	19/07/04	19/07/08
100,000	6.00	20/09/04	20/09/11
1,500,000	6.50	28/12/04	28/12/11
980,000	6.50	28/12/04	28/12/08
4,009,000			

18 Reserves

Of the total reserves shown on the Balance Sheet, the following amounts are regarded as distributable or otherwise:

	Group 2002 £000	Group 2001 £000	**Company 2002 £000**	Company 2001 £000
Distributable:				
Profit and loss account	**(20,044)**	(16,040)	**—**	—
Non-distributable:				
Share premium account	**16,789**	17,332	**16,789**	17,332
Difference arising on merger	**1,070**	1,070	**—**	—
Total reserves	**(2,185)**	2,362	**16,789**	17,332

The movement on reserves during the year was as follows:

	Group Profit and loss account £000	Group Share premium account £000	Group Difference arising on merger £000	Group Total £000	Company Share premium account £000
Beginning of year	(16,040)	17,332	1,070	2,362	17,332
Retained loss for the financial year	(3,797)	—	—	(3,797)	—
Expenses of equity share issues	—	(543)	—	(543)	(543)
Long Term Incentive Scheme credit	(207)	—	—	(207)	—
	(20,044)	16,789	1,070	(2,185)	16,789

19 Reconciliation of movements in group shareholders' funds

	Group 2002 £000	Group 2001 £000	**Company 2002 £000**	Company 2001 £000
Retained loss for the financial year	**(3,797)**	(7,144)	**—**	—
Issue costs written off	**(543)**	(93)	**(543)**	(93)
New shares issued	**4,632**	5,090	**4,632**	5,090
Foreign currency translation	**—**	(109)	**—**	—
Long Term Incentive Scheme credit	**(207)**	—	**—**	—
Net increase/(reduction to) in shareholders' funds	**85**	(2,256)	**4,089**	4,997
Opening shareholders' funds	**4,678**	6,934	**19,648**	14,651
Closing shareholders' funds	**4,763**	4,678	**23,737**	19,648

20 Reconciliation of operating loss to operating cash flows

	2002 £000	2001 £000
Operating loss	**(4,074)**	(5,928)
Depreciation charges	**373**	661
Amortisation charges	**13**	55
Impairment of investment	**200**	—
Closure costs	**(195)**	—
Decrease in stock	**154**	109
Decrease in debtors	**628**	567
Decrease in creditors	**(754)**	(1,272)
Exchange difference	**—**	(109)
Long Term Incentive Scheme credit	**(207)**	—
Net cash outflow from operating activities	**(3,862)**	**(5,917)**

Cash described in the Balance Sheet comprises cash and liquid resources. Liquid resources represent funds on short term deposit.

Notes to the Financial Statements

21 Reconciliation of cash flow to movement in net funds

	2002 £000	2001 £000
Decrease in cash in the year	**(162)**	(54)
Cash outflow from decrease in debt and lease financing	**66**	110
Cash inflow/(outflow) from (decrease)/increase in liquid resources	**700**	(1,250)
Movement in net funds in the year	**604**	(1,194)
Net funds at the beginning of the year	**3,370**	4,564
Net funds at the end of the year	**3,974**	3,370

22 Analysis of net funds

	1 April 2001 £000	Cash inflow/ (outflow) £000	**31 March 2002 £000**
Cash at bank and in hand	224	(162)	**62**
Debt due after one year	(41)	3	**(38)**
Finance leases	(63)	63	**—**
	(104)	66	**(38)**
Short term cash deposits	3,250	700	**3,950**
Net funds	3,370	604	**3,974**

23 Financial commitments

The Group had no capital commitments at the year end (2001: £Nil).

	2002 £000	2001 £000
Annual commitments under non-cancellable operating leases are as follows:		
Land and buildings		
– expiring after five years	**219**	227
Others		
– expiring within one year	**22**	21
– expiring in two to five years	**3**	24
	25	45

The Company has no financial commitments at the year end (2001: £Nil).

24 Pension arrangements

The Company operates two defined contribution schemes and the amounts charged to the Profit and Loss Account represent the contributions payable in respect of the accounting year. The assets of the schemes are held separately from those of the Group in a fund administered by trustees.

The pension cost charge in the accounts represents contributions payable by the Group to the fund amounting to £193,000 (2001: £168,000).

Financial Summary

Results record

	Year ended 31 March 2002 £000	Year ended 31 March 2001 £000	Year ended 31 March 2000 £000	Year ended 31 March 1999 £000	Year ended 31 March 1998 £000	Year ended 31 March 1997 £000	Year ended 31 March 1996 £000
Turnover	**1,735**	2,701	2,694	4,820	6,232	2,007	535
Cost of sales	**(754)**	(1,025)	(913)	(2,395)	(2,226)	(968)	(368)
Gross profit	**981**	1,676	1,781	2,425	4,006	1,039	167
Other operating expenses	**(5,055)**	(7,604)	(6,632)	(3,659)	(4,063)	(3,091)	(1,423)
Operating loss	**(4,074)**	(5,928)	(4,851)	(1,234)	(57)	(2,052)	(1,256)
Cost of closure of managed service businesses	**(195)**	(1,446)	—	—	—	—	—
Loss on ordinary activities before interest and finance charges	**(4,269)**	(7,374)	(4,851)	(1,234)	(57)	(2,052)	(1,256)
Bank interest	**84**	230	344	136	129	174	47
(Loss)/profit on ordinary activities before taxation	**(4,185)**	(7,144)	(4,507)	(1,098)	72	(1,878)	(1,209)
Taxation	**388**	—	40	—	(40)	—	—
(Loss)/profit on ordinary activities after tax being retained (loss)/profit for the year	**(3,797)**	(7,144)	(4,467)	(1,098)	32	(1,878)	(1,209)
(Loss)/earnings per share basic and diluted – pence	**(5.41)**	(15.82)	(10.57)	(3.36)	0.10	(6.10)	(4.85)
Net assets	**4,763**	4,678	6,934	2,413	3,475	3,374	1,257

These results relate to Vocalis Limited for all periods up to 31 March 1996 and consolidated results of Vocalis Group plc for subsequent years.

Notice of Annual General Meeting

Notice is hereby given that the sixth Annual General Meeting of the Company will be held at Chaston House, Great Shelford, Cambridge CB2 5LD on 17 July 2002 at 12:00 noon for the following purposes:

Ordinary business

1. To receive the Company's Annual Financial Statements for the financial year ended 31 March 2002, the directors' report and the auditors' report on those Financial Statements.
2. To appoint Grant Thornton as auditors and to authorise the directors to fix their remuneration.
3. To appoint as director Mr R J Watrasiewicz who was appointed during the period since the last Annual General Meeting and is retiring in accordance with the Company's Articles of Association and, being eligible, offers himself for reappointment.
4. To reappoint as a director Mr P K Wright who is retiring by rotation.
5. To reappoint as a director Mr K L Hill who is retiring by rotation.
6. To consider the following Resolution which will be proposed as an ordinary Resolution:

   "THAT in substitution for all existing authorities, to the extent unused, the directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £2,315,906.50 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this Resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this Resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement."

Special business

7. To consider the following Resolution which will be proposed as a special Resolution:

   "THAT in substitution for all existing authorities and subject to the passing of Resolution 6, the directors be generally empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority conferred by Resolution 6 as if Section 89(1) of the Act did not apply to the allotment. This power:

   (A) expires 15 months after the date of the passing of this Resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this Resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement; and

   (B) is limited to:

   (i) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of Ordinary Shares in the capital of the Company made in proportion (as nearly as may be) to their existing holdings of Ordinary Shares but subject to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:

   (a) to deal with equity securities representing fractional entitlements; and

   (b) to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and (ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £347,385.98."

By order of the Board

E T Seymour
Company Secretary
11 June 2002

Registered office:
Chaston House
Mill Court, Great Shelford
Cambridge CB2 5LD

Notes

1. A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company
2. To be valid, forms of proxy and any power of attorney or other authority under which it is signed must be deposited at Neville Registrars Limited, Neville House, 18 Laurel Lane, West Midlands B63 3DA not less than 48 hours before the time fixed for the Meeting. A form of proxy is enclosed with this notice. Completion and return of a proxy form does not preclude a member from attending and voting at the Meeting.
3. Copies of all directors' service contracts will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Meeting and for at least 15 minutes prior to and during the Meeting.
4. The register of the directors' interests kept by the Company under Section 325 of the Companies Act 1985 shall be produced at the Meeting and remain open and accessible during the continuance of the Meeting to any person attending the Meeting.
5. Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 12:00 noon 17 July 2002 (being not more than 48 hours prior to the time fixed for the Meeting) or, if the Meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Meeting.

Directors and Advisers

Directors
Mr K L Hill – non-executive Chairman
Mr P K Wright – Chief Executive
Mr R C G Cotterill – non-executive director
Mr C A Garrett – senior non-executive director
Mr S W Lawrenson – non-executive director
Mr R J Watrasiewicz – Operations director

Secretary
Mrs E T Seymour

Registered office
Chaston House
Mill Court
Great Shelford
Cambridge CB2 5LD

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Auditors
Grant Thornton
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Solicitors
CMS Cameron McKenna
Mitre House
160 Aldergate Street
London EC1A 4DD

Bankers
Barclays Bank plc
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