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RHETORICAL SYSTEMS LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003



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REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

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RHETORICAL SYSTEMS LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS : MFJ Moens
PA Taylor
AL Robison
JR Oberlander

SECRETARY: AL Robison

**REGISTERED
OFFICE :** Saltire Court
20 Castle Terrace
Edinburgh
EH1 2ET

AUDITORS : LWC Audit Limited
18 Greenside Lane
Edinburgh
EH1 3AH

BANKERS : Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

SOLICITORS : Shepherd & Wedderburn WS
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2ET

**COMPANY
NUMBER :** SC 205735

RHETORICAL SYSTEMS LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2003

The directors present their report and the audited financial statements for the year ended 31 December 2003.

1 ACTIVITIES

The principal activities of the company are the research, development and sale of text to speech software and the provision of related consultancy services.

2 RESULTS, DIVIDENDS AND FUTURE PROSPECTS

The results for the year are disclosed on page 5. No dividend is proposed and the loss of £781,000 (2002 loss of £1,013,000) has been transferred to reserves.

The directors are satisfied with the development of the company and will continue to pursue appropriate business opportunities. Further details of activities during the year and future prospects are included within the Directors' Report of the ultimate parent undertaking, Rhetorical Group plc.

3 DIRECTORS

The present membership of the board is set out on page 1.

The interest of the directors who served during the period in the shares of the company were as follows:-

	Ordinary Shares Of £0.01 each 31 December 2003	Ordinary Shares Of £0.01 each 31 December 2002
MFJ Moens	-	-
PA Taylor	-	-
JR Oberlander	-	-
AL Robison	-	-

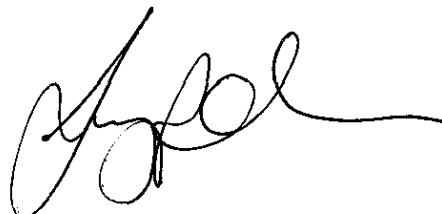
The company is a wholly owned subsidiary of Rhetorical Group plc. The interests of the directors in the shares of Rhetorical Group plc are disclosed in the accounts of that company.

4 AUDITORS

LWC Audit Limited will be proposed for reappointment in accordance with Section 385 of the Companies Act 1985.

23 February 2004

By Order of the Board

 AL Robison
Secretary

RHETORICAL SYSTEMS LIMITED
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 of the profit or loss of the company 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;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



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AUDITORS' REPORT TO THE SHAREHOLDERS

OF

RHETORICAL SYSTEMS LIMITED

We have audited the financial statements of Rhetorical Systems Limited for the year ended 31 December 2003 on pages 5 to 14. These Financial Statements have been prepared under the historic cost convention and the accounting policies set out on pages 7 and 8.

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

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements which are in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards. 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 Report of the Directors 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 company is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatement within it.

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 company'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 the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

LWC Audit Limited

**LWC Audit Limited
Registered Auditors
Edinburgh**

23 February 2004

Directors:
John McLeod, Aidan McLaughlin.

Registered office: 18 Greenside Lane, Edinburgh EH1 3AH
Company Number: SC234008

RHETORICAL SYSTEMS LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2003

	Note	£ '000	2002 £ '000
TURNOVER	3	811	1,244
Cost of sales		62	93
		-----	-----
GROSS PROFIT		749	1,151
Administrative expenses		2,094	2,689
Other operating income		498	405
		-----	-----
OPERATING LOSS	4	(847)	(1,133)
Interest receivable and similar income		66	139
		-----	-----
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(781)	(994)
Tax charge on ordinary activities	6	-	(19)
		-----	-----
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	14	(781)	(1,013)
		=====	=====

Turnover and operating loss for the year derive wholly from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

	£'000	2002 £'000
Loss for the financial year	(781)	(1,013)
	-----	-----
Total recognised gains & losses in the year	(781)	(1,013)
Prior period adjustment	-	(562)
	-----	-----
Total gains and losses recognised since the last annual report	(781)	(1,575)
	=====	=====

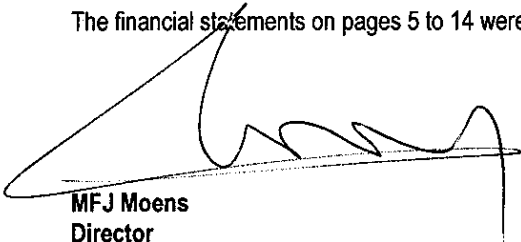
RHETORICAL SYSTEMS LIMITED

BALANCE SHEET

AT 31 DECEMBER 2003

	Note	£ '000	£ '000	2002 £ '000
FIXED ASSETS				
Intangible assets	7		30	45
Tangible assets	8		251	368
			<u>281</u>	<u>413</u>
CURRENT ASSETS				
Debtors	10	1,380		1,015
Cash at bank and in hand		1,224		2,201
		<u>2,604</u>		<u>3,216</u>
CREDITORS: Amounts falling due within one year	11		(6,154)	(6,106)
NET CURRENT LIABILITIES			<u>(3,550)</u>	<u>(2,890)</u>
			<u>(3,269)</u>	<u>(2,477)</u>
CREDITORS : Amounts falling due after one year	12		-	11
			<u>(3,269)</u>	<u>(2,488)</u>
CAPITAL AND RESERVES				
Called up share capital	13		1	1
Share premium account	14		199	199
Profit and loss account	14		(3,469)	(2,688)
EQUITY SHAREHOLDERS' FUNDS	15		<u>(3,269)</u>	<u>(2,488)</u>

The financial statements on pages 5 to 14 were approved by the Board of Directors on 23 February 2004 and signed on its behalf by:


MFJ Moens
 Director

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

1 ACCOUNTING POLICIES

a) Accounting Convention

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

b) Turnover

Turnover derives from the principal activities of the company and is stated net of Value Added Tax.

Perpetual software licenses supplied are included in turnover when software has been delivered against a binding obligation on the customer. All associated support revenues are recognised over the contract period.

In respect of funded development projects, turnover is recognised over the life of the project. Profit is recognised from the point at which the directors are satisfied as to the overall profitability of the project with reference to the achievement of applicable milestones included within the contract.

c) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost over the estimated lives of the assets.

The rates of depreciation are as follows:-

Leasehold Property	10% per annum straight line
Office Equipment	25% per annum straight line
Computer Equipment	33.3% per annum straight line

d) Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

1 ACCOUNTING POLICIES – Continued

e) Research & Development

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

f) Intangible Assets

Intangible assets are capitalised and amortised in equal instalments over the directors' estimate of their useful economic life.

The database licence is amortised over five years.

g) Hire Purchase and Finance Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Operating lease rentals are charged to income in equal annual amounts over the lease term.

h) Pension Costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions are charged to the profit and loss accounts as they become payable in accordance with the rule of the scheme.

j) Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account

k) Grants

Government grants in respect of revenue expenditure are recognised in the profit and loss account in line with the recognition of the related expenditure.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

2 GOING CONCERN

The accounts have been prepared on a going concern basis which assumes that continued financial support will be made available by the parent company, Rhetorical Group plc.

At the date of approval of these accounts, the directors of Rhetorical Group plc have confirmed that continued support will be made available in accordance with the group business plan.

3 TURNOVER

Turnover is stated net of value added tax and arises wholly from the principal activities of the company within the United Kingdom.

4 OPERATING LOSS

	£ '000	2002 £ '000
Operating Loss is stated after charging (crediting):		
Depreciation on owned assets	132	149
Depreciation on fixed assets held under hire purchase	11	11
Amortisation of intangible assets	15	15
Auditors' remuneration	5	5
Operating lease rentals - property	147	147
Research and development	1,082	1,342
Grants received	(178)	(302)
	=====	=====

5 STAFF COSTS

The average number of persons employed by the company, including directors, during the period was as follows:-

	No.	2002 No.
Management and administration	6	6
Production	24	30
Sales	6	9
	----- 36	----- 45

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

5 STAFF COSTS (Continued)

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

	£ '000	2002 £ '000
Wages and salaries	1,176	1,695
Redundancy payments	-	15
Social Security	127	160
Other pension costs	26	82
	-----	-----
	1,329	1,952
	=====	=====
 Directors' emoluments	 £ '000	 £ '000
Fees	-	-
Other emoluments	204	255
Pension contributions	4	14
	-----	-----
	208	269
	=====	=====

Three directors (2002: 3) accrued benefits under the group defined contribution pension scheme.

The emoluments of the highest paid director (excluding pension contributions) were £70,773 (2002: £83,000).

During the year, A L Robison was granted options to subscribe for shares in the ultimate parent company.

	Date Granted	Number	Exercise Price	Expiry Date
A L Robison	8 May 2003	12,600	67p	8 May 2013

The options are exercisable 33% two years after the date granted, 34% three years after the date granted and the remainder four years after the date granted.

6 TAX ON LOSS ON ORDINARY ACTIVITIES

	£ '000	2002 £ '000
Overprovision for research and development		
tax credit in prior years	-	(19)
	-----	-----

The company has corporation tax losses of approximately £2,312,000 available to carry forward against future trading profits.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

7 INTANGIBLE FIXED ASSETS

	Database Licence £ '000
Cost	
At 1 January 2003	75
Additions	-

At 31 December 2003	75

Amortisation	
At 1 January 2003	30
Charge for the year	15

At 31 December 2003	45

Net Book Value	
At 31 December 2003	30
	=====
At 31 December 2002	45
	=====

8 TANGIBLE FIXED ASSETS

	Leasehold Property £ '000	Computer Equipment £ '000	Office Equipment £ '000	Total £ '000
Cost				
At 1 January 2003	139	384	115	638
Additions	-	23	3	26
	-----	-----	-----	-----
At 31 December 2003	139	407	118	664
	-----	-----	-----	-----
Depreciation				
At 1 January 2003	17	215	38	270
Charge for the year	14	100	29	143
	-----	-----	-----	-----
At 31 December 2003	31	315	67	413
	-----	-----	-----	-----
Net Book Value				
At 31 December 2003	108	92	51	251
	=====	=====	=====	=====
At 31 December 2002	122	169	77	368
	=====	=====	=====	=====

The net book value of tangible fixed assets includes £18,660 (2002: £30,000) in respect of assets held under hire purchase and finance lease agreements.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

9 INVESTMENTS

Rhetorical Systems Limited holds the entire issued share capital of Rhetorical Trustees Limited. Rhetorical Trustees Limited holds shares in Rhetorical Group plc in trust for the benefit of the employees of Rhetorical Systems Limited. The investment of £1 in Rhetorical Trustees Limited, a company registered in Scotland, is held at no value in the accounts.

10 DEBTORS

	£ '000	2002 £ '000
Trade debtors	260	253
Sundry debtors	196	197
Amounts due by related parties	876	454
Prepayments and accrued income	48	111
	-----	-----
	1,380	1,015
	=====	=====

Included within sundry debtors is a rental deposit of £195,000 (2002: £195,000) which is recoverable after more than one year.

11 CREDITORS: Amounts falling due within one year

	£ '000	2002 £ '000
Trade creditors	78	22
Accruals and deferred income	192	155
Other taxes and social security costs	52	61
Amounts due to related parties	5,820	5,852
Other creditors	2	1
Hire purchase and finance lease	10	15
	-----	-----
	6,154	6,106
	=====	=====

12 CREDITORS : Amounts falling due after one year

	£ '000	2002 £ '000
Hire purchase and finance lease	-	11
	=====	=====

Hire purchase and finance lease creditors are secured against the related assets and are wholly repayable within five years.

13 CALLED UP SHARE CAPITAL

	£ '000	2002 £ '000
Authorised		
102,000 Ordinary shares of £0.01 each	1	1
	=====	=====
Allotted called up and fully paid		
102,000 Ordinary shares of £0.01 each	1	1
	=====	=====

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

14 RESERVES

	Share Premium Account £ '000	Profit & Loss Account £ '000	Total £ '000
At 1 January 2003	199	(2,688)	(2,489)
Movement in the year	-	(781)	(781)
	-----	-----	-----
At 31 December 2003	199	(3,469)	(3,270)
	=====	=====	=====

**15 RECONCILIATION OF MOVEMENTS IN
SHAREHOLDERS' FUNDS**

	2002 £ '000	2002 £ '000
Loss for the financial period	(781)	(1,013)
Opening shareholders' funds	(2,488)	(1,475)
	-----	-----
Closing shareholders' funds	(3,269)	(2,488)
	=====	=====

16 OPERATING LEASE COMMITMENTS

At 31 December 2003, the company was committed, under a non-cancellable operating lease expiring after more than five years, to lease property at a current annual rental of £165,000.

17 RELATED PARTY TRANSACTIONS

In preparing these accounts, the company has taken advantage of exemption contained within Financial Reporting Standard 8 (Related Party Transactions) from the requirement to disclose transactions with other group companies.

18 ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Rhetorical Group plc, which holds 100% of the ordinary shares.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2003

19 RHETORICAL GROUP EMPLOYEE BENEFIT TRUST

The Rhetorical Group Employee Benefit Trust is the holder of 1,163,134 ordinary shares of £0.05 in Rhetorical Group plc (2002: 1,164,667)

The market value of the shareholding, on the basis of the issue price of shares at 2 November 2001 is £779,300.

Options are granted to employees under the terms of both an EMI and unapproved scheme at £nil cost, based on individual performance and basic salary. Options are due to be exercised at varying dates before 2013.

At 31 December 2003, 1,197,954 (2002: 1,200,000) shares were under option to employees of Rhetorical Systems Limited and 40,000 (2002: 40,000) shares are under option to another party. During the year 4,533 options were exercised, 301,667 lapsed and 304,154 were awarded to employees.