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RHETORICAL SYSTEMS LIMITED
REPORT AND FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2000



Lyon Windram Crolla
Accountants
18 Greenside Lane
Edinburgh
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RHETORICAL SYSTEMS LIMITED
REPORT AND FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2000

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RHETORICAL SYSTEMS LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS : M Moens
P Taylor
T Robison
J Oberlander

SECRETARY: T Robison

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

ACCOUNTANTS : Lyon Windram Crolla
18 Greenside Lane
Edinburgh
EH1 3AH

BANKERS : The 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

PERIOD ENDED 31 DECEMBER 2000

The directors present their report and the audited financial statements for the first accounting period ended 31 December 2000.

1 ACTIVITIES

The principal activity of the company is the research and development of synthetic voices. The company was incorporated as Randotte (No. 484) Limited on 3 April 2000, changed its name on 27 April 2000 and commenced trading on 1 May 2000.

2 RESULTS, DIVIDENDS AND FUTURE PROSPECTS

The results for the period are disclosed on page 5. No dividend is proposed and the retained loss of £119,995 has been transferred to reserves.

The directors are satisfied with the development of the company during its first period of trading and will continue to pursue appropriate business opportunities.

3 DIRECTORS

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

J R Will and I M C Meiklejohn were appointed as directors upon incorporation and both resigned 18 April 2000.

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

	Ordinary Shares Of £1 each On Appointment	Ordinary Shares Of £1 each 31 December 2000
P Denyer (appointed 18.4.00, resigned 13.12.00)	-	-
M Moens (appointed 18.4.00)	-	-
P Taylor (appointed 18.4.00)	-	-
J Oberlander (appointed 18.4.00)	-	-

Share transactions are fully disclosed in Note 11. The company is a wholly owned subsidiary of Rhetorical Group PLC. The interests of the directors in the shares of Rhetorical Group PLC will be disclosed in the accounts of that company. There are no statutory accounts presently being produced. The first set of accounts will be for the period ended 31 December 2001.


On 23 March 2001 T Robison was appointed as a director.

4 AUDITORS

Lyon Windram Crolla were appointed as first auditors to the company and a resolution to re-appoint Lyon Windram Crolla as auditors will be proposed at the Annual General Meeting.

25 April 2001

By Order of the Board

 T 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 set out on pages 5 to 13 which have been prepared under the accounting policies set out on pages 9 and 10.

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 required to be prepared in accordance with United Kingdom law and Accounting Standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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

25 April 2001


Lyon Windram Crolla
Registered Auditors

RHETORICAL SYSTEMS LIMITED
PROFIT AND LOSS ACCOUNT
PERIOD ENDED 31 DECEMBER 2000

	Note	£
TURNOVER	2	518,685
Cost of sales		518,685
		<hr/>
GROSS PROFIT		-
Administrative expenses		124,829
		<hr/>
OPERATING LOSS	3	(124,829)
Interest receivable and similar income		4,834
		<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(119,995)
Tax on ordinary activities	5	-
		<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	12	(119,995)
		<hr/> <hr/>

The company has no recognised gains and losses other than the retained loss recorded.

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

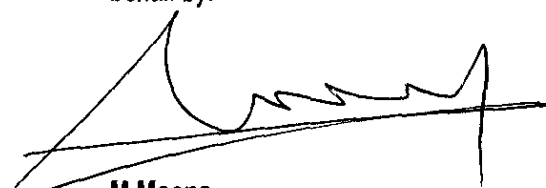
RHETORICAL SYSTEMS LIMITED

BALANCE SHEET

AT 31 DECEMBER 2000

	Note	£	£
FIXED ASSETS			
Intangible assets	6		230,273
Tangible assets	7		111,609
			<u>341,882</u>
CURRENT ASSETS			
Debtors	9	54,100	
Cash at bank and in hand		1,998,687	
		<u>2,052,787</u>	
CREDITORS: Amounts falling due within one year	10	2,314,864	
		<u>(262,077)</u>	
NET CURRENT LIABILITIES			<u>79,805</u>
			<u>=====</u>
CAPITAL AND RESERVES			
Called up share capital	11		1,020
Share premium account	12		198,780
Profit and loss account	12		(119,995)
			<u>79,805</u>
EQUITY SHAREHOLDERS' FUNDS	13		<u>=====</u>

The financial statements on pages 5 to 13 were approved by the Board of Directors on 25 April 2001 and signed on its behalf by:


M Moens
 Director

RHETORICAL SYSTEMS LIMITED

CASH FLOW STATEMENT

PERIOD ENDED 31 DECEMBER 2000

	Note	2000 £
Net cash inflow from operating activities	(i)	2,167,222
<hr/>		
Returns on investments and servicing finance		
Interest received		4,834
Net cash inflow from returns on investments and servicing of finance		4,834
<hr/>		
Capital expenditure		
Payments to acquire intangible fixed assets		(230,273)
Payments to acquire tangible fixed assets		(142,896)
Net cash outflow from investing activities		(373,169)
<hr/>		
Financing		
Issue of ordinary share capital		199,800
Net cash inflow / (outflow) from financing		199,800
<hr/>		
Increase / (decrease) in cash and net funds at 31 December 2000	(ii)	1,998,687
		=====

RHETORICAL SYSTEMS LIMITED
NOTES TO THE CASH FLOW STATEMENT
PERIOD ENDED 31 DECEMBER 2000

(i) RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 £
Operating loss	(124,829)
Depreciation charge	31,287
Increase in debtors	(54,100)
Increase in creditors	2,314,864
	<u>2,167,222</u>
Net cash inflow from operating activities	<u>2,167,222</u>

(ii) ANALYSIS OF CHANGES IN NET FUNDS

	At Beginning of period £	Cash flows £	Non-cash flow changes £	At end of period £
At bank and in hand	-	1,998,687	-	1,998,687
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2000

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) 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:-

Office Equipment	25% per annum, straight line basis
Computer Equipment	33.3% per annum, straight line basis

c) 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 to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

d) Research & Development

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

Development expenditure is written off as incurred except where it is separately identifiable with a project on which revenue will be earned in future accounting periods. In such cases, the expenditure is capitalised and amortised against future revenue streams, having regard to the ultimate commercial viability of the product.

e) 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.

f) Work in Progress

Work in progress is valued at the lower of costs and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2000

1 ACCOUNTING POLICIES - Continued

g) 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.

2 TURNOVER

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

3 OPERATING LOSS

	£
Operating Loss is stated after charging:	
Depreciation on owned assets	22,611
Auditors' remuneration	2,000
Directors' emoluments	52,926
Research and development	37,628
	=====

4 STAFF COSTS

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

	Number
Management and administration	9
Production	17

	26

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

	£
Wages and salaries	170,719
Social Security	18,726
Other pension costs	2,994

	192,439
	=====

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2000

5 TAX ON LOSS ON ORDINARY ACTIVITIES

Due to losses incurred, no corporation tax liability is due.

6 INTANGIBLE FIXED ASSETS

	Database Licence £	Research & Development £	Total £
Cost			
Additions	75,000	155,273	230,273
Disposals	-	-	-
	<u>75,000</u>	<u>155,273</u>	<u>230,273</u>
At 31 December 2000			
Amortisation			
Charge for the period	-	-	-
Disposals	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2000			
Net book value			
At 31 December 2000	<u>75,000</u>	<u>155,273</u>	<u>230,273</u>

7 TANGIBLE FIXED ASSETS

	Computer Equipment £	Office Equipment £	Total £
Cost			
Additions	134,476	8,420	142,896
Disposals	-	-	-
	<u>134,476</u>	<u>8,420</u>	<u>142,896</u>
At 31 December 2000			
Depreciation			
Charge for the period to profit and loss account	21,449	1,162	22,611
Charge for the period to research & development	8,435	241	8,676
Disposals	-	-	-
	<u>29,884</u>	<u>1,403</u>	<u>31,287</u>
At 31 December 2000			
Net book value			
At 31 December 2000	<u>104,592</u>	<u>7,017</u>	<u>111,609</u>

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2000

8 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. Rhetorical Trustees Limited, which is registered in Scotland, is a dormant company and the investment of £1 is held at no value in the accounts.

9 DEBTORS

	£
Sundry debtors	41,994
Prepayments	12,106

	54,100
	=====

10 CREDITORS: Amounts falling due within one year

	£
Trade creditors	10,767
Other taxes and social security costs	26,651
Amounts due to parent undertaking	1,757,666
Other creditors	519,780

	2,314,864
	=====

11 CALLED UP SHARE CAPITAL

	£
Authorised	
Ordinary shares of £0.01 each	1,020
	=====
Allotted called up and fully paid	
Ordinary shares of £0.01 each	1,020
	=====

1 ordinary share of £1 was issued on incorporation.

On 20 April 2000, 799 ordinary shares of £1 each were issued at par.

On 20 April 2000, the 800 ordinary £1 shares were converted to 80,000 ordinary shares of £0.01 each.

On 20 April 2000, 8,000 £0.01 ordinary shares were issued for £24,000.

On 31 October 2000, 8,000 £0.01 ordinary shares were issued for a consideration of £100,000.

On 30 November 2000, 6,000 £0.01 ordinary shares were issued in consideration for a database licence as detailed in Note 5.

On 30 November 2000, the authorised ordinary share capital of the company was increased to 1,020,000 ordinary shares of £0.01 ranking pari passu in all respects with the existing ordinary shares.

RHETORICAL SYSTEMS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
PERIOD ENDED 31 DECEMBER 2000

12 RESERVES

	Share Premium Account	Profit & Loss Account	Total
	£	£	£
Movement during the period	198,780	(119,995)	78,785
At 31 December 2000	<u>198,780</u>	<u>(119,995)</u>	<u>78,785</u>
	=====	=====	=====

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£
Loss for the financial period	(119,995)
New share capital subscribed	199,800
Closing shareholders' funds	<u>79,805</u>
	=====

14 ULTIMATE CONTROLLING PARTY

The ultimate controlling party is Rhetorical Group PLC who hold 100% of the ordinary shares