



INTELLIGENT TELEPHONY

S O L U T I O N S

Netcall plc

Report and accounts 2002

“NetCall’s claims about QueueBuster™ are true. We’ve been able to handle more calls by offering it on our new business lines without increasing our staffing levels. We’re providing a better service to our customers who think the facility is great — and we are reducing our costs at the same time. QueueBuster is a simple solution, with fantastic results.”

Rob Woolley,
Head of new business centre,
The Co-operative Bank

Contents

| | | | |
|--------------------------------------|----|---|----|
| Highlights | 1 | Parent company balance sheet | 14 |
| Chairman’s statement | 2 | Consolidated cash flow statement | 15 |
| Review of operations | 4 | Consolidated statement of total recognised gains and losses | 16 |
| Directors’ and advisers | 7 | Reconciliation of movements in consolidated shareholders’ funds | 16 |
| Director’s report | 8 | Notes to the accounts | 17 |
| Independent auditors’ report | 11 | Notice of AGM | 34 |
| Consolidated profit and loss account | 12 | | |
| Consolidated balance sheet | 13 | | |

Highlights

- A 32% increase in turnover on continuing operations to £0.86m (2001: £0.65m).
- A 61% increase in gross margin on continuing operations to £0.68m (2001: £0.42m).
- A 44% decrease in adjusted loss per ordinary share to 5.14p (2001: 9.16p).
- Significant new sales of QueueBuster to Dwr Cymru Welsh Water, Npower (Innogy) and Co-operative Bank during the year.
- Sales to Vertex Data Sciences, United Utilities and Linklaters since the year end.
- Initial order received from BT for multiple QueueBuster systems in November.

“Vertex captured the power of our proposition when they told us ‘We can imagine life without QueueBuster, but would prefer not to’.”

Brian Gowers, Chairman of Netcall

Chairman's statement

Operations

I am pleased to report that the strategy implemented last year to focus the company on its QueueBuster™ product is generating significantly improving performance.

A modest increase in turnover of 32% over the prior year masks the underlying strength of the business, as evidenced by the momentum of our sales pipeline in our chosen market sectors of utilities, finance and telecoms. We are actively engaged in the sales process with over twenty-five major companies who have recognised the substantial benefits that QueueBuster brings to the quality of customer service and call centre productivity.

During the year, we had success in the utility sector with orders from Dwr Cymru (Welsh Water) and Npower Yorkshire (Innogy) and made our first sale in the financial services sector to The Co-operative Bank. Since the year end, we have underpinned our position in both of these sectors with orders from Vertex Data Sciences, United Utilities, and Linklaters. Significantly, we have made further progress into the telecoms sector with initial orders from BT.

In July, we signed a Memorandum of Understanding with Committed Capital Pty, an Australian-based international executive capital company, specialising in the development and execution of business strategy. This arrangement should facilitate the securing of a global distribution partner for QueueBuster.

Results and balance sheet

The results for the year to 2002 show turnover on continuing activities of £0.86m (2001: £0.65m).

Our emphasis on value creation for our customers and the impact of post-sales recurring software licence and maintenance fees have together resulted in a gross margin percentage on sales of 79%, compared to 65% last year. Administration cost reduction has achieved an annual level which is 27% lower than the prior year. The resulting adjusted net loss on ongoing activities before exceptionals was £1.86m (2001: £3.04m). Adjusted loss per ordinary share has been reduced to 5.14p (2001: 9.16p).

In July 2002, the company arranged a placing to raise £970,000 (net of expenses). The shares were issued and funds received in August.

Review of operations

Despite extended sales cycles we continue to be optimistic for the development of QueueBuster and the company. Over the year we ran 8 paid for trials for the product in blue chip organisations. So far we have converted five of these into material sales. As we establish ourselves, the credibility of the product grows and we expect sales cycles will reduce as our prospects gain confidence in our ability to live up to our claims.

We now estimate the market opportunity for product sales of QueueBuster to be around £250m, in the UK alone, and this represents considerable encouragement to us all.

Sales and Marketing

Our sales team has continued to focus on QueueBuster exclusively and has built up an impressive pipeline of prospects amongst our targets in the Finance, Utilities and Telecoms sectors, despite challenging market conditions.

Marketing efforts have been concentrated on establishing credibility for the company and the product. Initially this was hindered by a lack of reference sites but the expanding customer base is allowing us to study the

dynamics of the QueueBuster proposition in detail. To date we have published two papers based on real-life performance, the first showing outstanding satisfaction ratings from users and call centre staff and the second showing the potential for QueueBuster to improve call centre productivity by up to 10%. As we continue to substantiate our claims for product performance, rapid implementation and reliability, we expect to see an increase to the size of our pipeline and shorter decision making time frames.

Recently completed research, using an independent consultant, reveals that our customers certainly feel we have lived up to our promises and this is manifesting itself in an increasing number of positive testimonials.

Development and Infrastructure

Our technical team has been assiduously responding to feedback from customers and has taken the QueueBuster product through one major and three minor revisions during the year. Their work has continued to justify our claim that we can integrate with all switches and adapt to all technical environments.

Review of operations continued

The team also maintains the technology supporting our service business, that continues to provide web call-back functionality to hundreds of customers. Some of these have started to develop their usage portfolio and this is expected to lead to a second phase of development. All4U — one of our technical partners — has completely restructured its product portfolio and won its first customer for these new services. Additionally, indications are positive for QueueBuster Service currently in trial with two customers; this project will eventually allow us to offer QueueBuster functionality to a wider range of potential customers.

We are ambitious and our target markets are a challenge for a small organisation. In order to reinforce our credibility we sought and achieved ISO 9000 accreditation in December 2001.

Current Outlook and Trading

The powerful proposition behind both QueueBuster and the Netcall technology platform remain persuasive.

The call centre market is still growing, Datamonitor predicts 7% growth per annum in Europe over the next 5 years, fuelled by the need for organisations to reduce costs and the willingness of customers to transact

business remotely. Commentators are generally agreed that the simple telephone conversation will remain a cornerstone of a business's relationship with its customers and contact centres will need to ensure that transaction quality is high if they are to retain customers.

Netcall has focused its sales activity on the fastest growing sectors of the market and specifically targets companies with multiple call centre sites. Once these companies are satisfied with QueueBuster performance we would expect them to place repeat orders within a relatively short timescale. This has already happened with Vertex Data Sciences.

QueueBuster contracts are typically signed for a three-year period, so as we install systems we are also building an annuity stream. At the end of June our contracted future revenues stood at £271,000 and this had increased to £380,000 by the end of October 2002. The recent orders from BT will enhance the position and help to build a material base for the future.

David R. Rothschild, CEO
david.rothschild@netcall.com

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30th June 2002.

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 group and the company and of the profit or loss of the group 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 accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

Activities

Netcall plc is the parent company of a group of companies which design, develop and market advanced technologies that help businesses to integrate and manage telephony efficiently.

Review of developments

Details of the group's performance are given in the consolidated profit and loss account on page 12 and the notes on pages 17 to 23. The position of the group and the company at the end of the year is set out in the balance sheets on pages 13 and 14 and the notes on pages 24 to 33.

Dividends

The directors do not recommend the payment of a dividend.

Future prospects

Although the exact timing of the receipt of orders continues to be difficult to predict, the Board of directors remains of the view that Netcall has proven the business benefits and effectiveness of Queuebuster™ and that Netcall is well placed to take advantage of the solid pipeline now established. Based on all the information available to the Board, at the time of approval of the financial statements, the Board of directors continues to have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and therefore it continues to adopt the going concern basis in preparing the financial statements.

Events occurring after the end of the year

Details of post-balance sheet events are given in note 29.

Research and development

The group continues an active programme of research and development in its chief operating subsidiary company Netcall Telecom Limited. The costs in the year amounted to £286,322 (2001 — £401,853). In addition, expenditure on sales and marketing of new products, which is necessarily incurred in advance of sales revenues, has continued to be substantial. It is group policy to write off all this expenditure as incurred.

Supplier payments

The group undertakes to make payments to suppliers for goods and services supplied within the normal credit periods agreed with those suppliers. The proportion of trade creditors at the year end to amounts supplied during the year gives an average payment term of 26 days (2001 — 26 days).

Directors' report continued

Directors

The directors below held office throughout the year unless stated otherwise, and their interests in the company's shares at 30th June 2002 and 1st July 2001 were:

| | 2002 | | 2001 | |
|---|------------|----------------|------------|----------------|
| | Beneficial | Non-beneficial | Beneficial | Non-beneficial |
| R. Allsop | 415,638 | — | 415,638 | — |
| C. Brown (resigned 16th July 2002) | — | — | — | — |
| B. Gowers | 20,000 | — | — | — |
| D. Rothschild | 440,000 | — | 440,000 | — |
| J. Rubins | 4,650,000 | 750,000 | 4,581,110 | 748,242 |
| J. Sutherland (appointed 7th December 2001) | 7,664 | — | 7,664 | — |

On 7th December 2001, J. Burnett and P. Warry resigned as directors of the company.

On 8th August 2002, the following directors increased their interests in the company's share capital, as a result of a share placing (note 29), to the following:

| | 2002 | |
|---------------|------------|----------------|
| | Beneficial | Non-beneficial |
| R. Allsop | 815,638 | — |
| B. Gowers | 420,000 | — |
| D. Rothschild | 940,000 | — |
| J. Rubins | 7,100,000 | 1,300,000 |
| J. Sutherland | 17,664 | — |

Other than as stated above, there have been no changes in directors' interests in the company's shares from 30th June 2002 up to 7th November 2002.

Directors' interests in share options in ordinary shares of 5p each are:

| | Date | At | Lapsed | At | Exercise | Exercisable |
|---------------|----------|---------------|----------|---------|----------|-----------------|
| | Granted | 1st July 2001 | | | | |
| C. Brown | 02/06/00 | 500,000 | — | 500,000 | 104p | before 02/06/10 |
| J. Sutherland | 03/12/00 | 200,000 | — | 200,000 | 73p | before 03/12/10 |
| C. Brown | 28/12/00 | 137,931 | — | 137,931 | 72.5p | before 28/12/10 |
| D. Rothschild | 28/12/00 | 137,931 | — | 137,931 | 72.5p | before 28/12/10 |
| J. Rubins | 28/12/00 | 137,931 | — | 137,931 | 72.5p | before 28/12/10 |
| C. Brown | 10/12/01 | — | 40,000 | 40,000 | 25p | before 10/12/11 |
| D. Rothschild | 10/12/01 | — | 150,000* | 150,000 | 50p | before 10/12/11 |
| D. Rothschild | 10/12/01 | — | 150,000* | 150,000 | 20p | before 10/12/11 |
| J. Sutherland | 10/12/01 | — | 100,000 | 100,000 | 20p | before 10/12/11 |
| R. Allsop | 15/02/02 | — | 100,000 | 100,000 | 20p | before 15/02/12 |
| B. Gowers | 15/02/02 | — | 200,000 | 200,000 | 20p | before 15/02/12 |

The share options in respect of directors who resign lapse upon resignation, with the exception of *.

Directors' report continued

The market price of the company's shares at 30th June 2002 was 5p and the range during the year ended 30th June 2002 was 4p to 31.5p.

Substantial interests

At 7th November 2002 the following interests of 3% or more in the issued ordinary share capital, other than directors, had been notified to the company:

| | Number of shares held |
|-------------------------------|-----------------------|
| Friends Ivory & Sime plc | 9,545,242 (16.83%) |
| Freeserve Investments Limited | 2,500,000 (4.41%) |
| Herald Investment Trust plc | 2,142,860 (3.78%) |
| Chocolate Fix Limited | 2,000,000 (3.54%) |

Derivatives and other financial instruments

The main purpose of the group's financial instruments is to raise finance for its operations. It is not the group's policy to trade in financial instruments, although strategic acquisitions may be made where it is considered that they will further the group's objectives.

a) Liquidity and interest rate risk

The group finances its operations primarily through the issue of share capital. A placing of shares occurred in August 2002 (note 29) which raised approximately £0.97 million net of placing expenses. This placing was undertaken to ensure adequate resources were in place for the year ended 30th June 2003 and beyond to enable the group to achieve its objectives. Funds from the issue of share capital are on deposit to maximise the interest obtained from them whilst providing sufficiently flexible access to the funds to meet the group's requirements. The deposits are on floating interest rates based on bank base rates.

b) Foreign currency risk

The group operates in the USA through its subsidiary Netcall Telecom Inc. whose expenditure is denominated in US dollars. In the year ended 30th June 2002 this expenditure accounted for 4% of the group's operating costs (2001 — 7%). The group finances its net investment in and the operations of Netcall Telecom Inc. by means of sterling funds.

In addition to sales to customers in the UK, sales are made to customers in the USA and continental Europe. These latter sales are priced in sterling but invoiced in the currencies of the customers involved. Any exchange gains or losses arising from the settlement of these transactions are dealt with in the profit and loss account.

Directors

In accordance with the company's Articles of Association, Jeffrey Rubins retires by rotation and, being eligible, offers himself for re-election. James Sutherland, the director appointed during the year, offers himself for re-election.

Auditors

A resolution to reappoint Cassons as auditors for the ensuing year will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of directors on 7th November 2002.

Signed on behalf of the Board

L. Towers

Secretary

Independent auditors' report to the shareholders of Netcall plc

We have audited the financial statements of Netcall plc for the year ended 30th June 2002 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliation of movements in consolidated shareholders' funds and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the directors' report, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and 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 audit 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 and 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 consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30th June 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.

Cassons
Chartered Accountants and
Registered Auditors
Bow Chambers
8 Tib Lane
Manchester
M2 4JB

7th November 2002

Consolidated Profit and Loss Account

Year ended 30th June 2002

| | Notes | 2002 £ | 2001 £ |
|--|----------|----------------------|----------------------|
| Turnover | | | |
| — continuing operations | | 861,231 | 652,888 |
| — discontinued operations | | — | 23,000 |
| Cost of sales | 3,4 4 | 861,231 (181,331) | 675,888 (252,546) |
| Gross profit | | 679,900 | 423,342 |
| Administration expenses | 4 | (2,745,779) | (3,749,551) |
| Other operating income | | — | 15,000 |
| Operating loss | | | |
| — continuing operations | 4,6 | (2,065,879) | (3,297,712) |
| — discontinued operations | 4,6 | — | (13,497) |
| Loss on ordinary activities before interest | | (2,065,879) | (3,311,209) |
| Interest receivable | 7 | 74,183 | 68,699 |
| Amounts written off investments | 8 | (350,000) | (4,500,000) |
| Interest payable | 9 | (531) | (25,677) |
| Loss on ordinary activities before taxation | | (2,342,227) | (7,768,187) |
| Tax on loss on ordinary activities | 10 | 92,110 | 40,699 |
| Loss for the financial year | | (2,250,117) | (7,727,488) |
| Loss per ordinary share | 12 | (6.20p) | (23.26p) |
| Diluted loss per ordinary share | 12 | (6.20p) | (23.63p) |

Consolidated Balance Sheet

30th June 2002

| | Notes | 2002 | | 2001 | |
|--|-------|---------------------|----------------|--------------|-----------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Intangible assets | 13 | | 19,315 | | 14,743 |
| Tangible assets | 14 | | 193,742 | | 263,039 |
| Investments | 15 | | — | | 350,000 |
| | | | 213,057 | | 627,782 |
| Current assets | | | | | |
| Stocks | 16 | 50,500 | | — | |
| Debtors | 17 | 335,492 | | 503,049 | |
| Cash at bank and in hand | | 149,514 | | 1,916,985 | |
| | | 535,506 | | 2,420,034 | |
| Creditors: amounts falling due within one year | | | | | |
| Bank loans and overdrafts | 20 | 34,031 | | 123,667 | |
| Trade creditors | | 101,762 | | 131,337 | |
| Other creditors including taxation and social security | 18 | 300,477 | | 243,901 | |
| | | 436,270 | | 498,905 | |
| Net current assets | | | 99,236 | | 1,921,129 |
| Total assets less current liabilities | | | 312,293 | | 2,548,911 |
| Creditors: amounts falling due after more than one year | | 19 | (393) | | (2,291) |
| | | | 311,900 | | 2,546,620 |
| Capital and reserves | | | | | |
| Called up share capital | 23 | 1,814,513 | | 1,814,513 | |
| Share premium account | 24 | 14,516,680 | | 14,518,380 | |
| Special and capital reserves | 24 | 245,055 | | 245,055 | |
| Profit and loss account | 24 | (16,264,348) | | (14,031,328) | |
| Equity shareholders' funds | | | 311,900 | | 2,546,620 |

These financial statements were approved by the Board on 7th November 2002

Signed on behalf of the Board of directors

B. Gowers
Director

D. Rothschild
Director

Parent Company Balance Sheet

30th June 2002

| | Notes | 2002 | | 2001 | |
|---|-------|-------------------|--------------------|------------|-------------|
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Intangible assets | 13 | | 19,315 | | 14,743 |
| Investments | 15 | | 639,899 | | 989,899 |
| | | | 659,214 | | 1,004,642 |
| Current assets | | | | | |
| Debtors | 17 | 10,171,934 | | 8,793,875 | |
| Cash at bank and in hand | | 121,583 | | 1,886,284 | |
| | | 10,293,517 | | 10,680,159 | |
| Creditors: amounts falling due within one year | | | | | |
| Bank loans and overdrafts | 20 | 11,599 | | 34,593 | |
| Trade creditors | | 45,544 | | 13,344 | |
| Other creditors including taxation and social security | 18 | 352,114 | | 314,481 | |
| | | 409,257 | | 362,418 | |
| Net current assets | | | 9,884,260 | | 10,317,741 |
| Total assets less current liabilities | | | 10,543,474 | | 11,322,383 |
| Capital and reserves | | | | | |
| Called up share capital | 23 | | 1,814,513 | | 1,814,513 |
| Share premium account | 24 | | 14,516,680 | | 14,518,380 |
| Special and capital reserves | 24 | | 496,396 | | 496,396 |
| Merger reserve | 24 | | 403,309 | | 403,309 |
| Profit and loss account | 24 | | (6,687,424) | | (5,910,215) |
| Equity shareholders' funds | | | 10,543,474 | | 11,322,383 |

These financial statements were approved by the Board on 7th November 2002

Signed on behalf of the Board of directors

B. Gowers
Director

D. Rothschild
Director

Consolidated Cash Flow Statement

Year ended 30th June 2002

| | 2002 | | 2001 | |
|--|-----------------|--------------------|-----------|--------------------|
| | £ | £ | £ | £ |
| Net cash outflow from operating activities | | (1,804,224) | | (3,002,029) |
| Returns on investments and servicing of finance | | | | |
| Interest element of finance lease rental payments | (415) | | (714) | |
| Loan interest paid | — | | (20,941) | |
| Interest received | 74,183 | | 86,260 | |
| Bank interest paid | (116) | | (4,022) | |
| | | 73,652 | | 60,583 |
| Taxation | | 88,981 | | — |
| Capital expenditure and financial investment | | | | |
| Payments to acquire intangible fixed assets | (7,822) | | (9,054) | |
| Payments to acquire tangible fixed assets | (25,924) | | (88,593) | |
| Payments to acquire fixed asset investments | — | | (300,000) | |
| Receipts from sales of tangible fixed assets | 787 | | 15,799 | |
| | | (32,959) | | (381,848) |
| Net cash outflow before use of liquid resources and financing | | (1,674,550) | | (3,323,294) |
| Management of liquid resources | | | | |
| Net purchase of short-term bank bonds | | — | | (1,270,000) |
| Sale of short-term bank bonds | | 1,250,000 | | — |
| Financing | | | | |
| Capital element of finance lease rental payments | (1,585) | | (3,696) | |
| Issue of ordinary share capital | — | | 4,998,515 | |
| Expenses of issue of ordinary share capital | (1,700) | | (271,450) | |
| Payment of loan | — | | (750,000) | |
| Receipt of loan | — | | 750,000 | |
| | | (3,285) | | 4,723,369 |
| (Decrease)/increase in cash | | (427,835) | | 130,075 |

Further information on the cash flow statement is given in note 28.

Consolidated Statement of Total Recognised Gains and Losses

Year ended 30th June 2002

| | 2002 £ | 2001 £ |
|--|--------------------|-------------|
| Loss for the financial year | (2,250,117) | (7,727,488) |
| Currency translation differences on foreign currency net investments | 17,097 | (56,805) |
| Share placing expenses | (1,700) | — |
| Total recognised gains and losses | (2,234,720) | (7,784,293) |

Reconciliation of Movements in Consolidated Shareholders' Funds

Year ended 30th June 2002

| | 2002 £ | 2001 £ |
|--|--------------------|-------------|
| Loss for the financial year | (2,250,117) | (7,727,488) |
| Currency translation differences on foreign currency net investments | 17,097 | (56,805) |
| Share placing expenses | (1,700) | — |
| Issue of shares | — | 4,727,065 |
| Net reduction in shareholders' funds | (2,234,720) | (3,057,228) |
| Opening shareholders' funds | 2,546,620 | 5,603,848 |
| Closing shareholders' funds | 311,900 | 2,546,620 |

Notes to the Accounts

Year ended 30th June 2002

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. The particular accounting policies adopted are described below.

a) Accounting convention

The financial statements are prepared under the historical cost convention.

b) Basis of consolidation

The group financial statements consolidate the financial statements of the company and all its subsidiaries. Where subsidiary companies are acquired during the year, the profit or loss attributable to shareholders includes the profits or losses from the date of acquisition. Where subsidiary companies are disposed of during the year, the profit or loss attributable to shareholders includes the profits or losses to the date of disposal.

c) Goodwill

Following the implementation of Financial Reporting Standard 10 "Goodwill and Intangible Assets", goodwill on consolidation, being the excess of consideration paid over the fair value of separable net assets acquired, is capitalised in the year in which it arises and amortised over its estimated useful life up to a maximum of twenty years. The directors regard twenty years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period. Capitalised purchased goodwill in respect of subsidiaries is included within intangible fixed assets.

Goodwill which arose on the acquisition of a business in prior periods and was written off to the profit and loss reserve as a matter of accounting policy remains eliminated in that reserve and will be charged or credited in the profit and loss account as appropriate on the subsequent disposal of the business to which it related.

d) Turnover

Turnover is the amount receivable by the group for goods and services supplied, excluding VAT. The first year's income from the system supply agreements arises from installation of the system, and maintenance-support and licence income for the first year of the agreement. This is recognised on delivery of the system to the customer. Maintenance-support and licence income for subsequent years, contracted for in the system supply agreement, is spread over those years.

e) Tangible fixed assets

Depreciation is provided on cost in equal annual amounts over the estimated useful lives of the assets. The rates of depreciation are as follows:

| | |
|----------------------------------|---------------------|
| Fixtures, fittings and equipment | 15% – 20% per annum |
|----------------------------------|---------------------|

f) Intangible fixed assets

Depreciation is provided on cost to write off purchased domain names over a five year period, this being the estimated useful economic lives of the assets.

g) Investments

Investments are stated at cost less provision for any impairment, except for minority shareholdings in unquoted companies which are valued at £nil.

Notes to the Accounts continued

Year ended 30th June 2002

h) Stocks

Stocks are stated at the lower of cost and net realisable value.

i) Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. Finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the lease term.

j) Deferred taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise 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.

Deferred tax assets and liabilities are not discounted.

k) Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the difference arising from the translation of the opening net investment in subsidiaries at the closing and opening rates is taken direct to reserves.

l) Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

m) Financial instruments

The group does not enter into derivative contracts for hedging or speculative purposes.

Transactions denominated in foreign currencies are recorded at the rates ruling on the date of the transaction. At the balance sheet date unhedged monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at that date.

2. Goodwill

The cumulative amount of goodwill charged to reserves as a matter of accounting policy prior to the implementation of Financial Reporting Standard 10 is £1,006,512 (2001 — £1,006,512).

Notes to the Accounts continued

Year ended 30th June 2002

3. Segmental analysis

Analyses of turnover, operating loss and net assets are stated below:

| (i) Turnover | 2002 £ | 2001 £ |
|--|------------------|------------------|
| Class of business: | | |
| Installed solutions | 432,649 | 348,515 |
| Telephony services | 427,018 | 294,034 |
| Bespoke software development | — | 7,500 |
| Commission and sundry income | 1,564 | 2,839 |
| | 861,231 | 652,888 |
| Corporate finance fee income* | — | 23,000 |
| | 861,231 | 675,888 |
| * Discontinued operations | | |
| Geographical analysis by destination: | | |
| United Kingdom | 808,114 | 407,496 |
| North America | 36,290 | 44,400 |
| Europe | 13,959 | 27,451 |
| Rest of the World | 2,868 | 196,541 |
| | 861,231 | 675,888 |

All of the turnover arose from activities carried out in the United Kingdom.

(ii) Operating loss

Class of business:

The analyses at note 4 show the split of the group's operating loss between its continuing and discontinued activities, as detailed above. The directors consider that these represent the classes of business of the group.

| Geographical analysis by origin: | 2002 £ | 2001 £ |
|---|------------------|------------------|
| United Kingdom | (1,948,689) | (3,056,793) |
| North America | (117,190) | (254,416) |
| | (2,065,879) | (3,311,209) |

Notes to the Accounts continued

Year ended 30th June 2002

3. Segmental analysis continued

(iii) Net assets

Class of business:

The group's net assets relate to its continuing activities as detailed above.

| Geographical location: | 2002 £ | 2001 £ |
|-------------------------------|------------------|------------------|
| United Kingdom | 298,471 | 2,515,588 |
| North America | 13,429 | 31,032 |
| | 311,900 | 2,546,620 |

4. Analyses of continuing and discontinued operations

| | 2002 Continuing £ | 2002 Discontinued £ | 2002 Total £ |
|-------------------------|---------------------------------------|---|----------------------------------|
| Turnover | 861,231 | — | 861,231 |
| Cost of sales | (181,331) | — | (181,331) |
| Gross profit | 679,900 | — | 679,900 |
| Administration expenses | (2,745,779) | — | (2,745,779) |
| Other operating income | — | — | — |
| Operating (loss)/profit | (2,065,879) | — | (2,065,879) |
| | 2001 Continuing £ | 2001 Discontinued £ | 2001 Total £ |
| Turnover | 652,888 | 23,000 | 675,888 |
| Cost of sales | (252,546) | — | (252,546) |
| Gross profit | 400,342 | 23,000 | 423,342 |
| Administration expenses | (3,698,054) | (51,497) | (3,749,551) |
| Other operating income | — | 15,000 | 15,000 |
| Operating loss | (3,297,712) | (13,497) | (3,311,209) |

Notes to the Accounts continued

Year ended 30th June 2002

5. Information regarding directors and employees

| | 2002 £ | 2001 £ |
|---|------------------|-----------|
| Directors' emoluments: | | |
| For services as directors | 571,878 | 570,193 |
| Highest paid director's emoluments: | | |
| For services as director | 158,189 | 151,677 |
| Aggregate gains made by directors on the exercise of share options were £nil (2001 — £nil). | | |
| Employee costs during the year: | £ | £ |
| Wages and salaries | 1,495,699 | 1,693,892 |
| Social security costs | 153,199 | 188,907 |
| | 1,648,898 | 1,882,799 |
| Average number of persons employed: | No. | No. |
| Customer services | 3 | 5 |
| Sales and marketing | 7 | 11 |
| Development and technical support | 10 | 13 |
| Administration | 4 | 3 |
| Directors | 8 | 4 |
| | 32 | 36 |

6. Operating loss

| | 2002 £ | 2001 £ |
|--|----------------|-----------|
| Operating loss is after charging/(crediting): | | |
| Research and development costs | 286,322 | 401,853 |
| Rentals under operating leases: | | |
| Other operating leases | 59,210 | 107,328 |
| Depreciation of intangible fixed assets | 3,250 | 1,824 |
| Depreciation of tangible fixed assets: | | |
| Own assets | 93,516 | 101,901 |
| Assets held under finance leases and hire purchase contracts | 918 | 3,250 |
| Profit on sale of fixed assets | — | (4,247) |
| Auditors' remuneration: | | |
| Audit | 29,186 | 32,200 |
| Other services | 690 | 13,765 |
| Exceptional costs — reorganisation costs | 35,571 | 186,025 |

The reorganisation costs relate to termination payments incurred as a result of a reorganisation of the group's workforce.

Notes to the Accounts continued

Year ended 30th June 2002

7. Interest receivable

| | 2002 £ | 2001 £ |
|---------------------|---------------|-----------|
| Short-term deposits | 74,183 | 57,998 |
| Loans | — | 10,701 |
| | 74,183 | 68,699 |

8. Amounts written off investments

The directors have made a decision to value any minority shareholdings in unquoted companies at £nil (see note 15).

In the previous year the company wrote off its investment in Telepost Inc. as it was in the process of being liquidated. The directors believe that the liquidation has now been completed. The investment had consisted of the acquisition of a 19.9% shareholding in Telepost Inc. in May 2000 from Freeserve plc, funded by the issue of 2,500,000 5p ordinary shares in Netcall plc at £1.80. There were no cash effects arising from the write-off.

9. Interest payable

| | 2002 £ | 2001 £ |
|--|------------|-----------|
| Bank loans and overdrafts | 116 | 4,022 |
| Other loans | — | 20,941 |
| Finance charges — finance leases and hire purchase contracts | 415 | 714 |
| | 531 | 25,667 |

10. Tax on loss on ordinary activities

| | 2002 £ | 2001 £ |
|--------------------------------------|-----------------|-----------|
| UK corporation tax — current year | (43,831) | (40,699) |
| Tax under-provided in previous years | (48,279) | — |
| | (92,110) | (40,699) |

The corporation tax receivable arises from the availability of a tax credit on Netcall Telecom Limited's expenditure on research and development activities.

No corporation tax is payable due to the tax losses incurred of £379,689 (2001 — £581,214), which are available to carry forward against future trading profits. Due to the accumulated tax losses there is no provision for deferred taxation.

No potential deferred tax asset has been recognised in the financial statements as recoverability is not considered likely at present.

11. Loss of the parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the financial year amounted to £777,209 (2001 — £5,147,453).

Notes to the Accounts continued

Year ended 30th June 2002

12. Loss per ordinary share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all dilutive potential ordinary shares.

| | 2002 £ | 2001 £ |
|--|--------------------|-------------|
| Loss for the financial year | (2,250,117) | (7,727,488) |
| Basic and diluted earnings attributable to ordinary shareholders | (2,250,117) | (7,727,488) |
| Weighted average number of ordinary shares | 36,290,267 | 33,222,442 |
| Effect of dilutive share options | — | (528,223) |
| Adjusted weighted average number of ordinary shares | 36,290,267 | 32,694,219 |
| Loss per ordinary share | (6.20p) | (23.26p) |
| Diluted loss per ordinary share | (6.20p) | (23.63p) |

An adjusted earnings per share figure has been calculated in addition to the earnings per share required by FRS14, "Earnings per share" and is based on losses excluding the effect of the exceptional charges. It has been calculated to allow the shareholders to gain a clearer understanding of the trading performance of the group. Details are set out below:

| | 2002 £ | 2001 £ |
|-------------------------------------|--------------------|-------------|
| Loss for the financial year | (2,250,117) | (7,727,488) |
| Exceptional reorganisation costs | 35,571 | 186,025 |
| Exceptional write-off of investment | 350,000 | 4,500,000 |
| Adjusted loss | (1,864,546) | (3,041,463) |

| | 2002 | | 2001 | |
|-------------------------------------|---------------|---------------|------------|--------------|
| | Basic p | Diluted p | Basic p | Diluted p |
| Basic loss per ordinary share | (6.20) | (6.20) | (23.26) | (23.63) |
| Exceptional reorganisation costs | 0.10 | 0.10 | 0.56 | 0.57 |
| Exceptional write-off of investment | 0.96 | 0.96 | 13.54 | 13.77 |
| Adjusted loss per ordinary share | (5.14) | (5.14) | (9.16) | (9.29) |

Notes to the Accounts continued

Year ended 30th June 2002

13. Intangible fixed assets

| Group and company | Domain names £ |
|---------------------------------|---------------------------|
| Cost | |
| At 1st July 2001 | 17,893 |
| Additions | 7,822 |
| At 30th June 2002 | 25,715 |
| Accumulated depreciation | |
| At 1st July 2001 | 3,150 |
| Charge for the year | 3,250 |
| At 30th June 2002 | 6,400 |
| Net book value | |
| At 30th June 2002 | 19,315 |
| At 30th June 2001 | 14,743 |

14. Tangible fixed assets

| Group | Fixtures, fittings and equipment £ |
|---------------------------------|---|
| Cost | |
| At 1st July 2001 | 637,065 |
| Additions | 25,924 |
| Disposals | (1,275) |
| At 30th June 2002 | 661,714 |
| Accumulated depreciation | |
| At 1st July 2001 | 374,026 |
| Charge for the year | 94,434 |
| Disposals | (488) |
| At 30th June 2002 | 467,972 |
| Net book value | |
| At 30th June 2002 | 193,742 |
| At 30th June 2001 | 263,039 |

The net book value includes £400 (2001 — £1,318) in respect of assets held under finance leases and hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £918 (2001 — £3,250).

Tangible fixed assets include assets with a cost of £241,186 (2001 — £108,370), whose net book value is £nil. These assets are still in use by the group.

Notes to the Accounts continued

Year ended 30th June 2002

15. Investments

| Group | Subsidiary Undertakings £ | Other £ | Total £ |
|------------------------|---------------------------------|-------------|--------------------|
| Cost | | | |
| At 1st July 2001 | — | 4,850,000 | 4,850,000 |
| Write-off | — | (4,500,000) | (4,500,000) |
| At 30th June 2002 | — | 350,000 | 350,000 |
| Provision | | | |
| At 1st July 2001 | — | 4,500,000 | 4,500,000 |
| Provision for the year | — | 350,000 | 350,000 |
| Release on write-off | — | (4,500,000) | (4,500,000) |
| At 30th June 2002 | — | 350,000 | 350,000 |
| Net book value | | | |
| At 30th June 2002 | — | — | — |
| At 30th June 2001 | — | 350,000 | 350,000 |
| <hr/> | | | |
| Company | Subsidiary Undertakings £ | Other £ | Total £ |
| Cost | | | |
| At 1st July 2001 | 921,022 | 4,850,000 | 5,771,022 |
| Write-off | (251,100) | (4,500,000) | (4,751,100) |
| At 30th June 2002 | 669,922 | 350,000 | 1,019,922 |
| Provision | | | |
| At 1st July 2001 | 281,123 | 4,500,000 | 4,781,123 |
| Charge for year | — | 350,000 | 350,000 |
| Release on write-off | (251,100) | (4,500,000) | (4,751,100) |
| At 30th June 2002 | 30,023 | 350,000 | 380,023 |
| Net book value | | | |
| At 30th June 2002 | 639,899 | — | 639,899 |
| At 30th June 2001 | 639,899 | 350,000 | 989,899 |

During the year two dormant subsidiary undertakings were disposed of. There were no cash effects arising from these disposals.

During the previous year the company acquired a 10.5% shareholding in All4U Limited, a company incorporated in England. The cost of this investment was funded by the simultaneous issue to All4U Limited of 400,000 new shares in Netcall plc. All4U Limited trades as a recruitment intermediary. The company's total shareholding in All4U Limited is 12.9%.

The directors have made a decision to value any minority shareholdings in unquoted companies at £nil.

All subsidiary undertakings are wholly owned and registered in England except Netcall Telecom Inc., which is incorporated in the USA. Eight subsidiaries are non-trading, the others trade as follows:

| | Main activity |
|-------------------------|---|
| Netcall Telecom Limited | Development and marketing of commercial applications derived from the group's technology. |
| Netcall Telecom Inc. | Marketing of the group's solutions. |

Notes to the Accounts continued

Year ended 30th June 2002

16. Stocks

| | Group | | Company | |
|-------------------------------------|---------------|-----------|-----------|-----------|
| | 2002 £ | 2001 £ | 2002 £ | 2001 £ |
| Finished goods and goods for resale | 50,500 | — | — | — |

17. Debtors

| | Group | | Company | |
|---|----------------|-----------|-------------------|-----------|
| | 2002 £ | 2001 £ | 2002 £ | 2001 £ |
| Trade debtors — due within one year | 213,485 | 286,273 | — | — |
| Amounts owed by subsidiary undertakings | — | — | 10,126,608 | 8,715,055 |
| Other debtors | 64,139 | 90,637 | 13,110 | 37,114 |
| Prepayments and accrued income | 57,868 | 126,139 | 32,216 | 41,706 |
| | 335,492 | 503,049 | 10,171,934 | 8,793,875 |

All debtors fall due within one year of the balance sheet date.

18. Other creditors including taxation and social security

| | Group | | Company | |
|--|----------------|-----------|----------------|-----------|
| | 2002 £ | 2001 £ | 2002 £ | 2001 £ |
| Taxation and social security | 75,201 | 75,825 | 12,232 | 17,558 |
| Obligations under finance leases and hire purchase contracts (see note 21) | 1,806 | 1,493 | — | — |
| Accruals and deferred income | 148,667 | 166,583 | 52,534 | 79,575 |
| Amounts owed to subsidiary undertakings | — | — | 217,348 | 217,348 |
| Directors' current accounts | 3,810 | — | — | — |
| Other creditors | 993 | — | — | — |
| Advance payments for share capital (see note 29) | 70,000 | — | 70,000 | — |
| | 300,477 | 243,901 | 352,114 | 314,481 |

The directors' current account balance is unsecured and interest-free. There is no set date for repayment.

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

| | Group | | Company | |
|--|------------|-----------|-----------|-----------|
| | 2002 £ | 2001 £ | 2002 £ | 2001 £ |
| Obligations under finance leases and hire purchase contracts (see note 21) | 393 | 2,291 | — | — |

Notes to the Accounts continued

Year ended 30th June 2002

20. Borrowings

| | Group | | Company | |
|---------------------------|---------------|-----------|---------------|-----------|
| | 2002 £ | 2001 £ | 2002 £ | 2001 £ |
| Bank loans and overdrafts | 34,031 | 123,667 | 11,599 | 34,593 |

All borrowings are repayable within one year or on demand.

The bank overdrafts are secured by fixed and floating charges on the assets of the group companies, and by a charge dated 23rd June 1998 over a Corporate Bond bank account of £20,000.

21. Obligations under finance leases and hire purchase contracts

| | Group | |
|---|--------------|-----------|
| | 2002 £ | 2001 £ |
| Obligations under finance leases and hire purchase contracts | 2,199 | 3,784 |
| Analysis of repayments: | | |
| Within one year or on demand | 1,806 | 1,493 |
| Between one and two years | 393 | 1,806 |
| Between two and five years | — | 485 |
| | 2,199 | 3,784 |

Obligations under finance leases and hire purchase contracts are secured by related leased assets.

22. Financial instruments

The group's policies regarding derivatives and financial instruments are set out in the directors' report on pages 8 to 10 and the accounting policies on pages 17 and 18.

Short-term debtors and creditors have been omitted from all disclosures other than the currency profile.

(a) Maturity profile of financial liabilities

The maturity profile of financial liabilities is dealt with in notes 20 and 21.

The group had no undrawn borrowing facilities at 30th June 2002.

Notes to the Accounts continued

Year ended 30th June 2002

22. Financial instruments continued

(b) Interest rate profile

The group's financial liabilities as disclosed in notes 20 and 21 are all denominated in sterling. Borrowings per note 20 were on floating interest rates, based on bank base rates. Obligations under finance leases and hire purchase contracts per note 21 are on fixed interest rates.

The group's financial assets comprise cash at bank and in hand, fixed asset investments and trade debtors due after more than one year as shown in the consolidated balance sheet. Other than cash at bank and in hand, all financial assets are non-interest bearing. The fixed asset investments are in unlisted companies and are not therefore readily convertible into cash.

Funds are placed on deposit to maximise the interest obtained from them whilst providing sufficiently flexible access to the funds to meet the group's requirements. The deposits are on floating interest rates based on bank base rates.

(c) Fair values of financial assets and liabilities

For all financial assets and liabilities book values are considered to approximate fair values.

There is not a ready market with regard to the group's unlisted fixed asset investments. The directors have made a decision to value any minority shareholdings in unquoted companies at £nil.

(d) Hedging

It is not the group's policy to hedge interest rate and foreign currency risk.

(e) Currency profile

The main functional currencies of the group are sterling and US \$. The following analysis of net monetary liabilities shows the group's currency exposures. The amounts shown represent the transactional (or non-structural) exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved, namely sterling.

| | 2002 | 2001 |
|-------|---------|----------|
| | £ | £ |
| US \$ | (9,622) | (13,570) |

Notes to the Accounts continued

Year ended 30th June 2002

23. Called up share capital

| | 2002 £ | 2001 £ |
|---------------------------------------|------------------|-----------|
| Authorised | | |
| 49,884,000 ordinary shares of 5p each | 2,494,200 | 2,494,200 |
| Called up, allotted and fully paid | | |
| 36,290,267 ordinary shares of 5p each | 1,814,513 | 1,814,513 |

Share options outstanding at 30th June 2002 were:

| Date granted | Number of ordinary shares of 5p each | Exercise price | Exercisable |
|--------------------|--------------------------------------|----------------|---------------------------|
| 17th October 1996 | 55,000 | 50p | before 17th October 2003 |
| 26th March 1997 | 100,000 | 75p | before 26th March 2004 |
| 22nd December 1997 | 55,000 | 65p | before 22nd December 2004 |
| 20th March 1999 | 15,000 | 60p | before 20th March 2006 |
| 2nd November 1999 | 30,000 | 130p | before 2nd November 2006 |
| 2nd June 2000 | 500,000 | 104p | before 2nd June 2010 |
| 4th July 2000 | 95,000 | 143p | before 4th July 2007 |
| 4th December 2000 | 136,986 | 73p | before 4th December 2007 |
| 4th December 2000 | 63,014 | 73p | before 4th December 2010 |
| 28th December 2000 | 827,584 | 72.5p | before 28th December 2010 |
| 14th February 2001 | 90,000 | 56.5p | before 14th February 2008 |
| 10th December 2001 | 250,000 | 20p | before 10th December 2011 |
| 10th December 2001 | 150,000 | 50p | before 10th December 2011 |
| 10th December 2001 | 40,000 | 25p | before 10th December 2011 |
| 19th December 2001 | 142,500 | 25p | before 19th February 2008 |
| 15th February 2002 | 300,000 | 20p | before 15th February 2012 |

Notes to the Accounts continued

Year ended 30th June 2002

24. Reserves

| | Share premium £ | Special and capital reserves £ | Merger reserve £ | Profit and loss account £ |
|--|--------------------|--------------------------------------|------------------------|---------------------------------|
| Group | | | | |
| At 1st July 2001 | 14,518,380 | 245,055 | — | (14,031,328) |
| Loss for the year | — | — | — | (2,250,117) |
| Foreign exchange translation differences | — | — | — | 17,097 |
| Share placing costs | (1,700) | — | — | — |
| At 30th June 2002 | 14,516,680 | 245,055 | — | (16,264,348) |
| Company | | | | |
| At 1st July 2001 | 14,518,380 | 496,396 | 403,309 | (5,910,215) |
| Loss for the year | — | — | — | (777,209) |
| Share placing costs | (1,700) | — | — | — |
| At 30th June 2002 | 14,516,680 | 496,396 | 403,309 | (6,687,424) |

25. Operating lease commitments

At 30th June 2002 the group was committed to making the following payments during the next year in respect of operating leases:

| | Land and buildings 2002 £ | Other 2002 £ | Land and buildings 2001 £ | Other 2001 £ |
|--------------------------|------------------------------------|--------------------|------------------------------------|--------------------|
| Leases which expire: | | | | |
| Within one year | — | — | — | 11,483 |
| Within two to five years | — | 20,869 | — | 13,608 |
| After five years | 30,000 | — | 30,000 | — |
| | 30,000 | 20,869 | 30,000 | 25,091 |

Notes to the Accounts continued

Year ended 30th June 2002

26. Contingent liabilities

- (i) Certain group companies are party to a group VAT registration. The company's contingent liability in respect thereof at 30th June 2002 was £15,336 (2001 — £nil).
- (ii) The company has guaranteed bank borrowings of other group members: Netcall Telecom Limited, A.C. Leasing Limited and IT Call Limited under an unlimited cross guarantee with a fixed and floating charge over all current and future assets of the company. The company's contingent liability in respect thereof at 30th June 2002 was £22,432 (2001 — £89,074).

27. Related party transactions

Included within accruals and deferred income at the balance sheet date is an amount of £nil (2001 — £10,908) which is payable to Cambridge Tele.Com Limited. This amount was payable in respect of services provided under a consultancy agreement to Netcall Telecom Limited by Mr J. Burnett. Mr J. Burnett, a director of Cambridge Tele.com Limited, is a former director of Netcall plc.

During the year Netcall Telecom Limited paid a total of £64,871 (2001 — £10,908) to Cambridge Tele.com Limited and Mr J. Burnett in respect of consultancy services provided.

Included within other creditors including taxation and social security at the balance sheet date is an amount of £3,810 which is due to Mr D. Rothschild, a director. This balance is unsecured and interest-free. There is no set date for repayment.

During the year the company paid £15,000 (2001 — £15,787) to Malvair Properties Limited, a company of which Mr R. Allsop, a director of Netcall plc, is a director. This amount was payable in respect of services provided to the company.

During the year the company paid £24,071 (2001 — £9,771) to Capitel Limited, a company of which Mr B. Gowers, a director of Netcall plc, is a director. This amount was payable in respect of services provided to the company.

Notes to the Accounts continued

Year ended 30th June 2002

28. Cash flow statement

| a) Reconciliation of operating loss to net cash outflow from operating activities | 2002 £ | | | 2001 £ |
|---|--------------------------|--------------------|-----------|---------------------------|
| Operating loss | (2,065,879) | | | (3,311,209) |
| Depreciation charges | 97,684 | | | 106,975 |
| Profit on sale of tangible fixed assets | — | | | (4,247) |
| Increase in stocks | (50,500) | | | — |
| Decrease in debtors | 170,689 | | | 519,252 |
| Increase/(decrease) in creditors | 26,685 | | | (255,995) |
| Other non-cash items | 17,097 | | | (56,805) |
| Net cash outflow from operating activities | (1,804,224) | | | (3,002,029) |
| b) Reconciliation of net cash flow to movement in net funds | | | | |
| | | | | £ |
| Decrease in cash in the period | | | | (427,835) |
| Cash used to repay finance leases and hire purchase contracts | | | | 1,585 |
| Cash used to decrease liquid resources | | | | (1,250,000) |
| Movement in net funds in the period | | | | (1,676,250) |
| Net funds at 1st July 2001 | | | | 1,789,534 |
| Net funds at 30th June 2002 | | | | 113,284 |
| c) Analysis of changes in net funds | | | | |
| | At 1st July 2001 £ | Cash flows £ | | At 30th June 2002 £ |
| Cash at bank and in hand | 646,985 | (517,471) | | 129,514 |
| Bank overdrafts | (123,667) | 89,636 | | (34,031) |
| | | | (427,835) | |
| Debt due within one year | (1,493) | (313) | | (1,806) |
| Debt due after one year | (2,291) | 1,898 | | (393) |
| Short-term bank bonds | 1,270,000 | (1,250,000) | | 20,000 |
| Total | 1,789,534 | (1,676,250) | | 113,284 |

Cash at bank and in hand in the consolidated balance sheet includes the above short-term bank bonds of £20,000 (2001 — £1,270,000). These bonds do not qualify to be treated as cash for the purposes of the consolidated cash flow statement, and are shown in the statement under the heading "Management of liquid resources".

Notes to the Accounts continued

Year ended 30th June 2002

29. Post-balance sheet events

On 8th August 2002 the company raised £1.012 million (£970,000 net of placing expenses) through a placing of 20,240,000 new ordinary shares at 5p per share. The net proceeds of the placing will be used to provide working capital for the group.

The decision was taken in July 2002 to make the position of chief financial officer redundant and Dr Caroline Brown left the company and resigned as a director at that time. Dr Brown has made a claim against the company.

Discussions are taking place between the respective legal advisers. No provision in respect of this matter has been made in these accounts.

Notice of the annual general meeting

Notice is hereby given that the 2002 Annual General Meeting of Netcall plc will be held at 11 a.m. on 12th December 2002 at 10 Harding Way, St Ives, Cambridgeshire, PE27 3WR for the purpose of considering and if thought fit passing the following resolutions which will be proposed as ordinary resolutions:

Ordinary Business

Resolution 1: To receive the audited accounts for the year ended 30th June 2002 together with the reports of the directors and auditors thereon.

Resolution 2: To reappoint Cassons as auditors and to authorise the directors to determine their remuneration.

Resolution 3: To re-elect as a director Jeffery Rubins who retires by rotation in accordance with the Articles of Association.

Resolution 4: To elect as a director James Sutherland who was appointed during the year.

By order of the Board

Louise Towers

Secretary

10 Harding Way

St Ives

Cambridgeshire

PE27 3WR

7th November 2002

Notes:

- 1 A member of the company entitled to attend and vote at this meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member.
- 2 To be entitled to attend and vote at the Annual General Meeting (and for the purpose of determination by the Company of the number of votes they may cast), members must be entered on the Company's Register of Members by 11.00 a.m. on 5th December 2002.
- 3 Completion and return of a proxy does not preclude a member from attending and voting at the meeting.
- 4 You will find attached a form of proxy for use by members which, to be valid, must be completed and signed, together with any power of attorney or other authority under which it is signed or a notarially certified or office copy thereof, and received by the company's registrars not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

Netcall plc proxy

For use at the Annual General Meeting to be held on 12th December 2002

I (Block letters please).....

.....

of

.....

.....

being a member of Netcall plc hereby appoint the Chairman of the meeting, or failing him*

.....

as my proxy to vote for me on my behalf at the Annual General Meeting of the company to be held on 12th December at 11.00 a.m. at 10 Harding Way, St Ives, Cambridgeshire, PE27 3WR and any adjournment thereof.

* If it is desired to appoint as proxy any other person, delete "the Chairman of the meeting, or failing him" and insert the name of your proxy; the alteration must be initialled.

| Ordinary Resolutions | For | Against |
|--|-----|---------|
| 1 To receive the audited accounts for the year ended 30th June 2002 together with the reports of the directors and auditors thereon. | | |
| 2 To reappoint Cassons as auditors and to authorise the directors to determine their remuneration. | | |
| 3 To re-elect as a director Jeffrey Rubins who retires by rotation in accordance with the Articles of Association. | | |
| 4 To elect as a director James Sutherland who was appointed during the year. | | |

Notes:

- 1 To be valid the form of proxy must be completed and deposited with the company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3BR, not later than 48 hours before the time fixed for holding the Meeting or adjourned Meeting.
- 2 If the appointer is a corporation this form of proxy should be executed under common seal or under the hand of an officer duly authorised in writing.
- 3 In the case of joint holders the signature of any one holder will be sufficient but the names of all joint holders should be stated.
- 4 A member may appoint his or her own proxy in the space provided and such proxy need not be a member of the company.
- 5 If the proxy is not mandated as to how to vote, he or she may vote at his or her discretion.

Second fold

BUSINESS REPLY SERVICE
Licence No. HF 106

2



**THE REGISTRAR
NEVILLE REGISTRARS LIMITED
NEVILLE HOUSE
18 LAUREL LANE
HALESOWEN
WEST MIDLANDS
B63 3BR**

First fold

Third fold
and tuck in flap opposite

A selection of Netcall technology users

| | |
|-----------------------------------|---|
| Abbey National | http://www.abbeynational.co.uk |
| Adobe | http://www.adobe.co.uk |
| Alliance & Leicester | http://www.alliance-leicester.co.uk |
| Autoglass | http://www.autoglass.co.uk |
| Bears Inn (USA) | http://www.bearsinn.com |
| BSM | http://www.bsm.co.uk |
| BUPA | http://www.bupa.co.uk |
| BUPA International | International http://www.bupa-intl.com |
| Buzz Airline | http://www.buzzaway.com |
| Carphone Warehouse | http://www.carphonewarehouse.com |
| Chase de Verre | http://www.chasedevere.com |
| Chrysler Jeep | http://www.chryslerjeep.co.uk |
| Citroen | http://www.citroen.co.uk |
| ClicktoCall | http://www.clicktocall.com |
| Club 18 – 30 | http://www.club18-30.co.uk |
| Coventry Building Society | http://www.coventrybuildingsociety.co.uk |
| Credit Suisse First Boston | http://www.credit-suisse.com |
| Curry's | http://www.currys.co.uk |
| Dixons Partmaster | http://www.partmaster.co.uk |
| Eagle Star | http://www.eaglestar.co.uk |
| Egg Investments | http://new.egg.com |
| Europcar | http://www.europcar.co.uk |
| Friends Provident | http://www.friendsprovident.com |
| Halifax | http://www.halifax.co.uk |
| HFC Bank | http://www.hfcbank.co.uk |
| Hipbone | http://www.hipbone.com |
| Honda | http://www.honda.co.uk |
| Hoverspeed | http://www.hoverspeed.co.uk |
| JMC | http://www.jmc.com |
| Linklaters | http://www.linklaters.com |
| NCR | http://www.ncr.com |
| Nestlé | http://www.nestle.co.uk |
| NetBanx | http://www.netbanx.com |
| Newcastle Building Society | http://www.newcastle.co.uk |
| Northcliffe Electronic Publishing | http://www.nng.co.uk |
| Norwich & Peterborough | http://www.norwichandpeterborough.co.uk |
| Npower Yorkshire | http://www.ye.net |
| One.Tel | http://onetel.net.uk |
| Oracle | http://oracle.com |
| P C World | http://pcworld.co.uk |
| Powergen | http://pgen.com |
| Prudential | http://prudential.co.uk |
| RAC | http://rac.co.uk |
| Rank Holidays | http://rank.com |
| Regus | http://regus.com |
| Royal & Sun Alliance | http://royalsunalliance.com |
| SAAB Information Centre | http://saab.co.uk |
| Thames Water | http://thameswater.co.uk |
| The Co-operative Bank | http://www.co-operativebank.co.uk |
| Thomas Cook | http://thomascook.com |
| Toyota | http://toyota.co.uk |
| TML | http://cranetel.co.uk |
| Trinity Publishing | http://trinitypub.co.uk |
| United Utilities | http://www.unitedutilities.com |
| Vauxhall | http://buypower.vauxhall.co.uk |
| Vertex Data Sciences | http://www.vertex.co.uk |
| Virgin Direct | http://virgin-direct.co.uk |
| Worldcom | http://www1.worldcom.com/uk/ |

The COOPERATIVE BANK



