VI GROUP PLC
Form 20-F
June 30, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

(Mark One)
[_] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR FORM 20-F

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002.

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________TO

| COMMISSION FILE NUMBER 0-31082 |

VI GROUP PLC
(Exact name of Registrant as specified in its charter)

REGISTRAR OF COMPANIES FOR ENGLAND AND WALES
(Jurisdiction of incorporation or organization)

THE MILL, BRIMSCOMBE PORT, STROUD, GLOUCESTERSHIRE GL5 2QG, UK
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:
NONE

Securities registered or to be registered pursuant to Section 12(g) of the Act:
ORDINARY SHARES, NOMINAL VALUE OF 0.5 PENCE PER SHARE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or ordinary stock as of the close of the period covered by the annual report. AS OF DECEMBER 31, 2002 THERE WERE 37,261,166 SHARES OF THE COMPANY'S ORDINARY SHARES OUTSTANDING AT A NOMINAL VALUE OF 0.5 PENCE PER SHARE.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No [_]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [_] Item 18 X

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Yes [_] No [_] NOT APPLICABLE

VI GROUP PLC
2002 FORM 20-F

TABLE OF CONTENTS

INTRODUCTION

VI Group plc is a public limited company incorporated in England, which conducts its operations through subsidiaries. The term "VI Group" or the "Company" as used in this Annual Report on Form 20-F (the "Annual Report") refers to VI Group plc and/or its subsidiaries, as appropriate.

The consolidated financial statements of the Company as of and for the year ended December 31, 2002 are presented in conformity with generally accepted accounting principles in the United States ("US GAAP").

The principal office of the Company is located at The Mill, Brimscombe Port, Stroud Gloucestershire GL5 2QG, United Kingdom and its telephone number is 011-44-1453-732900.

ii

PART I

ITEM 1. DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.

Not Applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not Applicable

ITEM 3. KEY INFORMATION.

A. Selected Consolidated Financial Data

The following selected financial data for the years ended December 31, are derived from the consolidated financial statements attached hereto or previously filed on Form 20-F. This information should be read in conjunction with the consolidated financial statements and the operating and financial review and prospects contained in Item 5 of the Annual Report.

Amounts in thousands of USD, except per share data

	Year ended December 31				
	2002	2001	2000	1999	1998
Net revenue	11,277	9,308	8,443	7,339	6,834
Cost of revenue	(2,385)	(2,007)	(1,845)	(1,807)	(1,377)
GROSS PROFIT	8,892	7,301	6,598	5,532	5,457
OPERATING EXPENSES					
Selling expenses	4,412	3,051	2,703	2,375	2,735
Administrative expenses	2,700	1,982	1,595	1,714	1,811
Product development	1,439	1,260	1,563	762	967
Re-organization costs	-	-	-	-	371
TOTAL OPERATING EXPENSES	8551	6,293	5,861	4,851	5,884
INCOME (LOSS) FROM OPERATIONS	341	1,008	737	681	(427)
Interest income, net	35	2	31	17	17
INCOME (LOSS) BEFORE INCOME TAXES	376	1,010	768	698	(410)
Income taxes	(450)	(415)	(412)	(306)	(181)
Net income (loss) after income taxes	(74)	595	356	392	(591)

Minority interest	-	-	-	-	-
NET INCOME (LOSS)	(74)	595	356	392	(591)
Earnings (loss) per share:					

1

Basic ($)	(0.002)	0.03	0.02	0.02	(0.03)
Diluted ($)	(0.002)	0.03	0.02	0.02	(0.03)
Weighted average number of shares outstanding in thousands					
Basic	31,228	20,642	20,210	20,000	18,573
Diluted	31,228	20,673	20,268	20,033	18,573

BALANCE SHEET DATA:

	As at December 31				
Amounts in thousands of USD	2002	2001	2000	1999	1998
Cash and cash equivalents	1,907	746	1,072	1,324	2,123
Net current assets	6,250	3,052	2,667	3,108	3,047
Total assets	15,382	8,146	6,621	5,609	6,379
Total liabilities	(5,330)	(3,619)	(2,910)	(2,187)	(3,093)
Total shareholders' equity	(10,052)	(4,527)	(3,711)	(3,422)	(3,286)

2

B. Not applicable

C. Not applicable

D. Risk Factors

FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements relating to the Company's operations that are based on management's current expectations, estimates and projections about the CAD/CAM software business in the mechanical engineering sector. Words such as "anticipates", "expects", "intends", "plans", "targets", "believes", "seeks", "estimates", and similar expressions are intended to identify such forward-looking statements. These statements are not statements of fact or guarantees of future performance and are subject to certain risks, uncertainties and other factors, some of which are beyond our control and are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. Unless legally required, the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that could cause actual results to differ materially are the effects of any failure by the Company to upgrade its products quickly enough to keep pace with changes in software technology in the Company's market, the effects of larger companies requiring their sub-contractors to conform to the existing CAD/CAM systems of such large companies, patents, copyrights or intellectual property rights owned by others, the availability and cost of financing for the Company's operations, capital expenditures and future acquisitions, termination of licensing agreements for software components utilized by the Company, termination of distribution relationships, the ability of the Company to attract and retain necessary skilled employees and currency fluctuations. In addition, such statements could be affected by general domestic and international economic and political conditions. Unpredictable or unknown factors not discussed herein also could have material adverse effects on forward-looking statements.

THE COMPANY'S PRODUCTS MAY BE RENDERED OBSOLETE IF THE COMPANY IS UNABLE TO UPGRADE ITS PRODUCTS QUICKLY ENOUGH TO KEEP PACE WITH THE RAPIDLY CHANGING SOFTWARE TECHNOLOGIES OF THE CAD/CAM MARKET.

Software technologies in the rapidly changing CAD/CAM market for the mold and die sector can become obsolete or less competitive if not regularly advanced. The Company's internal development aims to ensure that its products are continually upgraded to take account of changes, while the product development of competitors is also monitored.

Despite the Company's commitment to development there are dangers that mold design or manufacturing processes and technologies may change or be introduced which shorten the expected life time of the Company's products.

THE POTENTIAL MARKET FOR THE COMPANY'S PRODUCTS COULD BE SUBSTANTIALLY REDUCED IF LARGER COMPANIES REQUIRE THEIR SUB-CONTRACTORS TO CONFORM TO THEIR EXISTING CAD/CAM SYSTEMS.

The Company is exposed to the risk that larger companies, who have extensive design and management systems, may require that their sub-contractors and suppliers use the same CAD/CAM systems used by those companies. In this case the potential market for the Company's products would be reduced. At present, most of the Company's customers are not generally under this pressure which applies particularly in the upper tier supplier levels of the automotive sector.

IF THE COMPANY FAILS TO PROTECT ITS INTELLECTUAL PROPERTY RIGHTS, OR IS UNABLE TO OBTAIN THE RIGHT TO USE TECHNOLOGIES OWNED BY OTHERS, ITS BUSINESS COULD BE MATERIALLY IMPAIRED.

THE COMPANY'S INTELLECTUAL PROPERTY RIGHTS MAY NOT BE ADEQUATELY PROTECTED.

THE COMPANY PRESENTLY DOES NOT HOLD ANY PATENTS OR COPYRIGHTS, NOR DOES THE COMPANY INTEND TO OBTAIN ANY PATENTS IN THE FUTURE. The Company however, does have common law copyright protection for all of its software. The Company also attempts to protect its proprietary rights to its software with license agreements and with the registration of trademarks. The licensing agreements between the Company and its customers typically provide that the Company retains the proprietary rights to the software. Nonetheless there is a possibility that disputes may arise regarding the ownership of the software. The Company also has developed technical safeguards and password requirements within the software itself that are designed to prevent unauthorized use of the software and aim to ensure the integrity of the systems.

An entity which reverse engineers the Company's software would be able to copy and re-market the software in direct competition with the Company. This risk is most relevant in developing countries where legal remedies are weakest and the technical support for the maintenance and repair of the products is not perceived as fundamental.

The Company has developed and utilizes software in collaboration with various software developers. In this case the Company has entered into agreements that provide for the Company's right to market and distribute the products containing these component technologies. However, it is possible for disputes to arise in relation to the validity of these rights.

THE COMPANY'S SOFTWARE PRODUCTS MAY INFRINGE ON THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS.

Companies in the technology industry frequently receive claims of patent or copyright infringement or the infringement of other intellectual property rights. In this regard, third parties may in the future assert claims against the Company regarding its existing products or with respect to future products under development. The Company has entered into indemnification obligations in favor of some customers that could be triggered upon an allegation or finding that it infringed on the other parties' proprietary rights. Thus, the Company may receive notification of alleged infringements in the future. The Company may not in all cases be able to resolve such allegations through licensing arrangements, settlement, alternative designs or otherwise. The Company may take legal action to determine the validity and scope of the third party rights or to defend against any allegations of infringement. In the course of pursuing any of these means the Company could incur

significant costs and diversion of its resources. Due to the competitive nature of the industry, it is unlikely that the Company could increase its prices to cover such costs. In addition, such claims could result in significant penalties or injunctions that could prevent it from selling some of its products in certain markets or result in settlements that require payment of significant royalties that could adversely affect the Company's ability to price its products profitably.

IN ORDER TO FUND THE COMPANY'S OPERATIONS AND BROADEN THE RANGE OF, AS WELL AS UPGRADE, ITS PRODUCTS, THE COMPANY MAY NEED ADDITIONAL CAPITAL IN THE FUTURE THAT MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS, IF AT ALL.

The Company may need additional capital in the future to fund its operations, finance investments in equipment and corporate infrastructure, to increase the range of products it offers and respond to competitive pressures and perceived opportunities. Cash flow from operations may not be sufficient to cover the Company's operating expenses and capital expenditure needs. Any needed additional financing may not be available on terms acceptable to the Company, if at all. If the Company raises additional funds by selling equity securities, the relative equity ownership of its existing investors could be diluted and the new investors might obtain terms more favorable than previous investors. If the Company raises additional funds through debt financing, the Company could incur significant borrowing costs. A failure to obtain additional funding could prevent the Company from making expenditures that allow it to grow its business, maintain its operations or to make acquisitions in order to strengthen its position in the market and achieve its strategic goals.

THE CAD/CAM MARKET IN WHICH THE COMPANY OPERATES IS HIGHLY COMPETITIVE, WHICH COULD RESULT IN LOST SALES AND LOWER REVENUES.

The development of software to enhance design and manufacturing processes is highly competitive. The Company faces competition from numerous companies for all of its products. The risk factors in relation to competitors varies broadly according to the two principal types of competitor that the Company faces and can be classed according to their approach to the market.

The first type of competitor approaches the full range of industrial sectors involved in mechanical engineering and that benefit from CAD/CAM technology in that they provide generic solutions to those companies designing or making mechanical systems and components. This type of competitor includes the largest CAD/CAM suppliers such as Parametric Technology, Dassault Systemes of France and Unigraphic Solutions Inc. Such companies have substantially greater manufacturing, financial, marketing and research and development resources than the Company.

The second type of competitor offers tailored solutions to the mold and die sector. This type of competitor includes Cimatron (USA) and Delcam (UK) and Missler (France). These companies may offer new or improved features which are specific to the Company's chosen sector and may cause a decline in revenues until such time as the Company can offer similar facilities.

New competitors have only rarely appeared over recent years but this possibility could require the adoption of newer technologies and additional development costs to minimize the sales effect of any new entry.

5

A DISRUPTION IN THE SUPPLY OF PRODUCTS FROM THE COMPANY'S SUPPLIERS OR PRICE INCREASES FOR SUCH PRODUCTS COULD AFFECT PROFITABILITY.

The strength of the Company's relationship with its dealers and suppliers is a significant factor in the Company's profitability. The Company's current arrangements with these dealers and suppliers are not guaranteed to remain in place long term. There are about 60 distributors employed by the Company with most agreements requiring between six months and one years notice of termination. One distributor Mecadat Gmbh (11%) represented 10% or more of revenues in 2002. These distributors maintain networks of dealers, which could continue the business in the regions if they no longer wished to follow the business. If this distributor terminates its existing agreement with the Company, the Company could suffer a temporary but significant loss of revenue.

THE TERMINATION OF THE COMPANY'S LICENSING AGREEMENTS FOR TECHNOLOGIES FROM THIRD PARTIES COULD RESULT IN SIGNIFICANT COSTS, DELAYS IN PRODUCT DEVELOPMENT AND EFFECT THE COMPANY'S PROFITABILITY.

At present the Company licenses a number of component software technologies from third parties. Each of these component libraries are licensed under agreements. The Company considers that early termination by a third party of any of the five material agreements is unlikely, however, replacement of such licenses may involve a delay in delivering products containing new libraries with consequential revenue losses and profitability effects. No material agreement has a specific termination date earlier than June 2003 and all material agreements are renewable beyond the term of the current agreement.

Where the Company believes the library to be critical to the Company's overall success or where it would be particularly difficult to replace (2 agreements) the Company has made suitable arrangements to obtain the source codes and rights to incorporate the library in the event that the supplier fails to continue its development. No guarantee can be made that the Company will be able to correctly integrate these source codes with the Company's products and in these circumstances could also result in delaying the production of new products and cause additional engineering expenses.

In the future, the Company may need to obtain further license rights to patents or other intellectual property held by others. Unless the Company is able to obtain such licenses on commercially reasonable terms, patents or other intellectual property held by others could inhibit the Company's development. Licenses granting the Company the right to use third-party technology may not be available on commercially reasonable terms, if at all.

THE CURRENT DEPRESSED GENERAL ECONOMIC AND MARKET CONDITIONS COULD CAUSE DECREASES IN DEMAND FOR THE COMPANY'S PRODUCTS, WHICH COULD NEGATIVELY AFFECT THE COMPANY'S REVENUE AND OPERATING RESULTS.

Downturns in general economic and market conditions such as those being experienced at present may result in customers postponing or cancelling software purchasing decisions. If demand for the Company's products decreases, the Company's revenues may decrease and operating results would be negatively impacted.

THE COMPANY EXPECTS TO ACQUIRE BUSINESSES AS PART OF ITS BUSINESS STRATEGY AND

WILL NEED TO INTEGRATE THEM SUCCESSFULLY OR ITS BUSINESS AND RESULTS OF OPERATIONS COULD SUFFER.

Acquisitions are an integral part of the Company's business strategy. The Company is actively engaged in identifying and evaluating potential acquisition candidates. Any potential acquisition could be material in size and involve the issuance of significant new debt or equity securities and/or the payment of substantial cash consideration. If the Company funds acquisitions in whole or in part through the issuance of equity securities, its existing shareholders may experience substantial dilution. If the Company raises additional funds through debt financing, the Company could incur significant borrowing costs. The Company may also be required to make significant investments in acquired companies to facilitate commercialization of its own products or to support the integration of the acquired company's operations with the Company's operations. Any acquisition may also involve significant management time and attention, which could cause a disruption to the Company's overall operations.

Although the Company has had no particular difficulties in absorbing prior acquisitions, the Company recognizes that integrating different businesses or software products from future acquisitions could prove difficult to manage and runs the risk of delaying current product projects.

If the Company is unable to successfully integrate any newly acquired business or technologies, it may be unable to achieve its strategic goals and its business could suffer.

COMPETITION FOR SKILLED EMPLOYEES IN THE CAD/CAM INDUSTRY IS INTENSE, AND THE COMPANY MAY HAVE DIFFICULTY ATTRACTING AND RETAINING THE SKILLED EMPLOYEES IT NEEDS TO EXECUTE ITS GROWTH PLANS.

The Company's future success will also depend on its ability to attract, retain and motivate highly skilled employees, particularly engineering and technical personnel. Competition for such employees in the Company's industry is intense and many companies use aggressive recruiting techniques. The Company has from time to time experienced, and expects to continue to experience in the future, difficulty in hiring employees with appropriate technical qualifications. In particular, the Company's Italian development group has recently been forced to expand its search for experienced programmers to a national level rather the local area previously canvassed. The Company may not be able to retain its key employees or attract, assimilate or retain other highly qualified employees in the future. If the Company does not succeed in attracting and retaining skilled personnel, its ability to operate and expand its business could suffer. Furthermore, the Company's recruitment of employees from its competitors could be challenged by their former employers, which could result in litigation costs and the loss of those employees.

THE COMPANY GENERATES A SIGNIFICANT PORTION OF ITS REVENUE OUTSIDE THE UNITED KINGDOM AND IS THEREFORE SUBJECT TO ADDITIONAL RISKS ASSOCIATED WITH THE EXTENT OF ITS INTERNATIONAL OPERATIONS.

The Company's revenue and results of operations are subject to fluctuations in general economic conditions in the various areas of the world in which it does business. The risks inherent in conducting international business generally include longer payment cycles,

7

greater difficulties in accounts receivable collection and enforcing agreements, tariffs and other restrictions on foreign trade, export requirements, economic and political instability, withholding and other tax consequences, restrictions on repatriation of earnings and the burdens of complying with a wide variety of foreign laws. Such risks are higher from areas outside of the United States and member countries of the European Union, which accounted for 16% of revenues in 2002, 21% of revenues in 2001 and 24% in 2000. The majority of such revenues were from countries in Asia where the revenues fell by close to 18% during 2002 compared to 2001, whereas in 2001 revenues were 9% lower compared to 2000.

CURRENCY FLUCTUATIONS MAY ADVERSELY AFFECT THE COMPANY'S RESULTS OF OPERATIONS.

The Company is exposed to the risk of fluctuations in foreign currency exchange rates due to the international nature and scope of its operations. In the future, the Company expects to continue to derive a significant portion of its net revenue and incur a significant portion of its operating costs outside the United States, and changes in foreign currency exchange rates may have a significant effect on the company's results of operations.

As a result of the strengthening Euro relative to the US dollar, during 2002 the revenue growth was 21% when presented in US dollars, whereas had the currency rates remained similar to those in 2001 it would have been17%.

As a result of the weakening Euro relative to the US dollar, during 2001 the revenue growth was 11% when presented in US dollars, whereas had the currency rates remained similar to those in 2000 it would have been 17%.

Also, as a result of the weakening Euro relative to the US dollar, during 2000 the revenue growth was 15%, whereas had the currency rates remained similar to those in 1999 it would have been 26%.

Due to the fact that costs and revenues are matched to a significant extent, the overall effect on net income was much less significant than the effect on revenues.

The extent of exchange gains and losses arising on foreign currency transactions and included in determining net income were a loss of $27,000 in 2002, a loss of $10,000 in 2001, and a gain of $77,000 in 2000.

THE EFFECT OF SEVERE ACUTE RESPIRATORY SYNDROME (SARS) ON THE MARKET FOR THE COMPANY'S PRODUCTS

Severe Acute Respiratory Syndrome is a disease for which there is currently no known remedy and has originated in the Far Eastern countries during the early part of 2002. Health authorities (including the World Health Organization), governments and immigration departments have placed travel restrictions or travel recommendations on people travelling to or from the most affected countries and regions. This has caused the postponement of business trips and the cancellation of important trade exhibitions, some of which are important to the mold and die sector that is the target market for the Company's products. If SARS spreads further, causes further cancellations and remains un-remedied then VI revenues and earnings may fall or suffer as a result of the restrictions on travel or isolation of some market areas.

8

ENFORCEABILITY OF CIVIL LIABILITIES UNDER THE U.S. FEDERAL SECURITIES LAWS.

The Company is a public limited company incorporated under the laws of England and Wales. A majority of the Company's directors and executive officers named in this Annual Report are residents of countries other than the United States. All or a substantial portion of their assets and the Company's assets are located outside the United States. As a result, it may not be possible for a shareholder:

- to effect service of process within the United States upon the Company or a majority of its directors and executive officers;

- to enforce in the United States courts or outside the United States judgments obtained against the Company or a majority of the Company's directors and executive officers in the United States courts in any action, including actions under the civil liability provisions of United States securities laws; or

- to enforce in the United States courts judgments obtained against the Company or a majority of the Company's directors and executive officers in the courts in jurisdictions outside the United States in any action, including actions under the civil liability provisions of United States securities laws.

- Parties may also have difficulties enforcing liabilities under the United States securities laws in original actions brought in courts in jurisdictions located outside the Unites States.

The Company has been advised by Addleshaw Goddard, its English legal counsel, that there is doubt as to the enforceability of liabilities against the Company and/or its directors and executive officers in the United Kingdom in original actions or in actions for the enforcement of judgments of United States courts predicated upon the federal securities laws of the United States. In particular, English law significantly limits the circumstances under which shareholders of English companies may bring derivative actions. Under English law generally, only the Company can be the proper plaintiff in proceedings in respect of wrongful acts committed against the Company.

THE RIGHTS OF THE COMPANY'S SHAREHOLDERS MAY DIFFER FROM THE SHAREHOLDER RIGHTS OF A U.S. CORPORATION.

The rights of shareholders are governed by English law, including the

Companies Act 1985, and by the Company's Articles of Association. These rights differ in many respects from the rights of shareholders in typical U.S. corporations.

ITEM 4. INFORMATION ON THE COMPANY.

Introduction

The Company designs, develops, manufactures, markets and supports a family of modular, high-performance, fully integrated computer-aided design/computer-aided manufacturing software ("CAD/CAM") focused on the mold and die sector. The Company's products provide an integrated design-through-manufacturing solution for small-to-medium-

sized companies and manufacturing divisions of large corporations. These product lines provide customers with a wide array of design and building capabilities that are adaptable to many types of machining techniques and tools. As a result, the Company's products are especially popular in the manufacturing segment of the CAD/CAM market, particularly among mold, tool, die and fixture makers. The Company is committed to providing mold, tool, die and fixture makers with comprehensive, cost-effective CAD/CAM solutions that streamline manufacturing cycles, enable collaboration with vendors and decrease delivery time.

The Company's revenue has increased every year since its foundation in Italy in 1988 with both its product range and sales network expanding to compete in nearly all of the world's leading industrial markets. At present, the Company has subsidiaries in the UK, Italy, the US and Japan and sales offices in France.

A. History and Development of the Company

The legal and commercial name of the Company is VI Group plc and its date of incorporation was November 5, 1997 as Deepcredit Limited. The Company is domiciled and operates under the laws of the United Kingdom specifically pursuant to the Companies Act of 1985. The Company was created to consolidate and re-organize Vero International Software S.r.l. (hereinafter "Vero") and its subsidiaries in the U.K. and the U.S. with the U.K. entity becoming the parent company. On February 25, 1998 the name of the Company was changed to VI Group Ltd. On March 16 1998 the Company was re-registered as a public company limited by shares. Its principal place of business is: The Mill Brimscombe Port, Stroud, Gloucestershire, GL5 2QG, U.K., the telephone number is 011-44-1453-732900.

Vero was founded in Northern Italy in October 1988 by one of its current executive directors and a former executive director: Donald A. Babbs and Ezio Galardo respectively, under the name Vero. By 1990, Vero had opened a UK sales office and had a growing Italian user base. Vero traditionally developed its products for the promising, but technically demanding personal computer, ("PC") market. Vero was one of the world's early purchasers of a compiler which broke the 640 Kbytes memory barrier leading to Vero's development of the edge surface modeler. The modeler was soon incorporated with machining software to provide one of the first surface machining software packages on the PC.

The development of the modeler further fueled sales which grew steadily through the early nineties. Thereafter, Vero took a further technology step by incorporating a solid modeler in its products in 1995, which maintained its competitive advantage and growth. As a dedicated PC software provider Vero quickly adopted the de-facto Windows standard, as it became available. Vero established relationships with important distributors in Japan and the Far East in the mid-nineties and spread its geographic coverage to the United States for the first time in 1997. Funding for the Company initially came from the founders, bank loans and cash flow.

The Company completed its reorganization and made a fully subscribed and successful public offering as VI Group plc. (the name "Vero" being unavailable) on the London Stock Exchange's Alternative Investment Market ("AIM") in April of 1998. The Company issued 5,600,000 ordinary shares of 0.5p per share at a price of 50p per share and raised $4.0 million after expenses.

10

Thereafter, the Company moved its commercial activities and headquarters from Italy to England in the same year. Ultimately, the Company has utilized the proceeds of the public offering in its expansion worldwide including marketing and sales activities, relocation and office expansion and supplementing its working capital. The Company also used approximately $900,000 of the proceeds of the offering to purchase minority interests in the subsidiary companies, including fees.

In May 2000, the Company acquired an Italian software company, called Vero Technologie S.p.A. (formerly known as Tecnocam, S.p.A.) for 360,000 ordinary shares of the Company and $349,000 in cash to secure valuable products and knowledge and experience in the field of progressive die design.

On March 2, 2001 Ubiquity Software Corporation Ltd a UK company, sold the assets of its Electronic Data Interchange (EDI) division to Vero International Software UK Ltd, a UK subsidiary of the Company ("VERO UK"). The EDI division sells software and systems for the secure transfer of CAD and CAM files data for the automotive industry in the United Kingdom. This division was purchased by VERO UK for a total consideration of $361,000.

On May 7, 2002, the Company successfully completed a placing in the United Kingdom of 14,651,166 ordinary shares of 0.5 pence, raising $4.6 million before expenses

On July 1, 2002, the Company's U. S. subsidiary, Vero International, Inc. acquired the Company's Canadian distributor Vero Tooling Solutions, Inc. for the nominal sum of one dollar plus the assumption of debt in the amount of $355,000 and forgiveness of debt in the amount of $259,000 and entered into employment agreements with the two former owners. The acquired subsidiary will continue to sell the Company's software in the Toronto area and will be integrated with the Company's Michigan office and headquarters of Vero International Inc.

On August 29th, 2002, the Company sold its Prague based Czech company VISI Sro to the management of that office for a consideration of $33,000 to be paid over three years. VISI Sro will continue to sell the Company's product as part of a distribution agreement for the area.

On August 1, 2002 the Company opened a branch offices in Lyon and Lille in France. The offices will provide sales and support services for the French market.

On September 28th 2002, the Company acquired the Machining Strategist 3D CAM business of NC Graphics (Cambridge) Ltd. and Arthur Flutter of England . The acquisition included goodwill, interests in copyrights , transfer of 8 staff including the development team employees, transfer of 8 foreign dealer agreements and UK based end-user customers. Total consideration was 1.25 million pounds (approximately $1.87m) with 1.0 million pounds (approximately $1.5m) being paid in cash and 250,000 pounds (approximately $0.37m) in ordinary shares of the Company. Proceedings have been initiated against the Company by NC Graphics (Cambridge) Limited ('NCG') for the payment of disputed invoices arising from the acquisition by the Company of NCG's Machining Strategist business, totalling $172,000 It is the Directors' view that this claim is without merit and the Company has advised, through its solicitors, of its intention to vigorously defend this claim. The Company has notified NCG of its intention to pursue, as part of these proceedings, a counterclaim for substantial damages arising from NCG's failure to comply with certain terms of the agreement relating to the acquisition of the Machining Strategist business.

11

On October 28th, 2002, the Company successfully listed its American Depositary Shares (ADS's) on the American Stock Exchange with each ADS representing 20 of the Company's ordinary shares.

On January 10th, 2003 the Company issued a convertible debenture of $1.0m and entered into an agreement, subject to approval by existing stockholders at an extraordinary general stockholder meeting for a possible further investment of between $2.0m and $4.0m in newly created preference share In the event that the Company does not receive shareholder approval for the creation of the above preference shares the convertible debenture will be repaid and the Company will pursue other sources which may be available to it in its attempt to secure financing in the United States or in England in order to fund potential acquisitions. If another source of financing is not available the Company will not be in a position to pursue significant acquisitions.

The Company ended its long term distribution agreement in Japan by executing a termination agreement with the existing distributor on November 6th 2002 to become effective on April 1st 2003. The Company successfully applied for and set up a wholly owned Japanese based subsidiary , Vero Japan kk to carry on the work previously undertaken by its former Japanese distributor. The newly formed subsidiary was registered in Tokyo on April 1st 2003.

There have been no public takeover offers of the Company to date.

Investments in property, plant and equipment amounted to $701,000, $282,000, $149,000 during 2002, 2001 and 2000 respectively.

Expenditures on research and development amounted to $1,439,000, $1,260,000 and $1,563,000 during 2002, 2001 and 2000 respectively. The increase in expenditures in 2002 was as a result of the OEM agreement with NC Graphics (Cambridge) Ltd and three months of operations of the Cambridge Technology Centre following the acquisition of the Machining Strategy business. These costs accounted for approximately 41% of the increase, in the ongoing product development activity.

There are currently no major contracts or investments in progress other than general renewal and maintenance of existing assets and purchases made to equip new employees.

B. Business Overview

OPERATIONS AND PRINCIPAL ACTIVITIES.

The Company designs, develops and supplies CAD/CAM software intended for use in the mechanical engineering sector. Except for the newly acquired Machining Strategist product the Company markets its products as modular software packages under its trademark VISI-Series. These products offer high performance facilities for the design and manufacture of mechanical components and tools, using standard Windows TM based computer platforms.

Background to the Development of CAD (Computer Aided Design)/CAM (Computer Aided Manufacture). Over the last 30 years CAD/CAM has revolutionized engineering

12

design and methodology. In the 1970's engineers designed components, as well as the tools and processes used to manufacture them by hand on sheets of paper. Today, fast and extremely accurate computerized design and production of complex components is an everyday requirement for engineers. CAD/CAM software enables manufacturers to manage the entire operation on computers, from the designers' first sketches, through mechanical design to production planning.

Many manufacturers of mechanical components follow design and building processes in which each phase is distinct but highly integrated. The process normally begins with the conceptual design of a product followed by a detailed study of its component parts and, on occasions, by the production of a prototype. The prototype is then examined to evaluate the original design, this may lead to improvements or specification changes. Next the production planning of components, including the specification of tools, fixtures, molds and dies, is undertaken. The item, or its mold form, is machined and finished, readied for assembly, tested and shipped.

Manufacturers are continually under pressure to reduce the time taken for the design and building processes, as well as to produce a higher quality product at lower cost. These market pressures have lead to the search for more efficient methods either to integrate these processes or to perform them concurrently, hence the development of CAD/CAM technologies. When CAD/CAM technologies first became available they were relatively expensive and complex to implement, therefore primarily larger companies were able to use them. These larger companies encouraged their traditional sub-contractors to invest in the emerging CAD/CAM technologies and, as a result, lower cost systems (albeit with lower functionality) began to emerge in the 1980's.

In the early 1990's, in the quest for greater efficiency, manufacturers also sought to identify processes such as design studios (concept phase), project management (detail design and drafting), mold making (tooling phase), model makers (prototype production) and machine shops (production phase), that could be 'out-sourced' or carried out by smaller companies specializing in each phase. This out-sourcing has increased the number of companies dedicated to these processes and this in turn has further fueled the growth of the lower cost CAD/CAM market. CAD technology, which formerly covered the detail design area, now also includes surface modeling, solid modeling and the more complex requirements of conceptual design and prototyping.

Many CAM users have also invested in CNC (Computerized Numeric Control) machine tools, which provide the benefits of higher accuracy and a greater flexibility in machine tool operations and manning. CNC machine tools require extensive programming. CAM software provides the ability to convert design drawings or prototype models into numeric data for the tool to follow. In addition, reverse engineering technologies convert model data generated by laser scanners and touch probes to mathematical and computer visualized forms.

CAD/CAM technologies have become both more advanced and more affordable to the small design and manufacturing organizations due to the parabolic increase in and lower cost of personal computing power in recent years. These organizations produce molds and dies that form the Company's core market. The Company has also developed highly specialized solutions for vertical markets such as plastic injection molding and the production of progressive dies that can achieve higher productivity than the more generic CAD/CAM systems.

Strategic Direction of the Company. In order to retain a competitive edge the Company has maintained both CAD and CAM expertise, sought out specialist sectors requiring 3D solutions, and made those software solutions available for PC platforms. As a result, the Company is in a strong position to serve those mold and die manufacturers that have moved towards the use of CAD/CAM technologies. These strategies have been a significant factor in the Company's continued growth.

The Company has also built specific software products for the mold and die making sector (itself subsets of the mechanical engineering sector). The Company is presently one of only a limited number of CAD/CAM suppliers operating within this niche market.

The increasing power of PCs has made it possible to perform complex geometrical and design computations and to stimulate machining operations. The increased sales of CNC machine tools together with, in the Company's opinion, an increase in the outsourcing of manufacturing, has lead to an increasing demand for CAD/CAM products. This can be seen particularly among small and medium-sized sub-contractors, mold makers, project design offices and machine shops.

The Company maintains and services its software products through regular issues of upgrades and software maintenance agreements. In the technical software environment, the Company stresses the importance of support and consultancy in winning and retaining customers. Accordingly the Company and its representatives have established more than sixty (60) Competence Centers, which have dedicated help lines, training centers and support staff to advise on CAD/CAM specification and implementation. All the technical support for both the Company's offices and Competence Centers are linked via Internet E-mail and provide facilities for the exchange of data and customer feedback reports.

The Company's products are designed and specified by engineers who attempt to incorporate in their designs the feedback received from the Competence Center's own marketing units. Development is shared between the Company's UK and Italian based facilities with mathematicians, software engineers, electronic engineers and mechanical engineers operating in teams to produce and maintain individual projects. New products evolve as a direct result of client requirements and feedback, new geometry techniques, enabling technologies and progress in computing power.

PRODUCTS.

The Company sells two product lines. A series of modular software products under the registered trade name of VISI-Series. This proprietary collection of software modules features a common geometrical or design base, which can be configured to provide different software configurations to match customer needs. The Company also sells the newly acquired Machining Strategist product to provide shop floor based 3D CAM solutions.

Much of the Company's success is due to its strategic and technological choices, which include the incorporation of both surface modeling and solid modeling, the use of C++ programming language and adoption of the Windows TM based operating systems. Currently, the Company's products are designed to run on all versions of the popular Windows TM operating systems, making complex CAD/CAM technologies available to a wider audience.

With VISI-Series and Machining Strategist the Company aims to:

- Present an easily understandable, yet intuitive interface.
- Build specific and productive CAD/CAM solutions on a common base for niche markets.
- Provide a complete means of transmitting numerical shape data across CAD/CAM and other system technology interfaces.
- Provide modular packages with a common interface and a common database to cover a broad range of machining and scanning technologies, that are useful to the mold & die sector.
- Maintain the process advantage by increasing integration between CAD/CAM and other allied technologies.
- Provide an open platform environment for third-party development of complementary solutions.
- Maintain a competitive edge by experimenting and incorporating new technologies, as they become practicable.

- Offer an automated approach to defining 3D machining programs on the shop floor

The software products that make up the two product lines contain a context sensitive on-line help facility. Products are available in many languages including English, Italian, German, Spanish, French, Japanese, Mandarin, Korean, Czech, Bulgarian and Turkish.

Software products are supplied as a standard package including technical manuals, guides and the software itself on a CD-ROM. The Company's software products and documentation are provided under license agreements with the customers, which seek to secure protection of the code and other intellectual property. Use of the Company's software products is accessed by the provision of a password associated with the end-user's security key. The Company's VISI-Series trademarks are registered in the UK, USA, Canada, Italy and Japan and registration has been applied for all countries included within the Madrid protocol.

The Company provides a software maintenance service for its products, gives technical support, software upgrades and consultation service to customers. As a result of the Company's dedication to service and commitment to development of cutting edge technology, it has relationships with some of its customers that have extended through three generations of software products.

PRINCIPAL MARKETS.

The Company sells directly to end users in the areas surrounding the Company offices in Turin, Milan, Venice and Rome in Italy, in England, Michigan in the U.S.A, Toronto in Canada, and Lyons and Lille in France. Direct sales provide substantial user feedback on product ideas and improvements. Direct sales represented fifty one percent (51%) of sales in 2002, compared to fifty percent (50%) of sales in 2001. The increase in direct sales is due to the expansion of the direct sales force in the U.S.A, Canada, France, Italy and the acquisition of the Machining Strategist product in the UK.

The majority of indirect sales come through fifty-nine (59) re-sellers operating in thirty-eight (38) countries. Many of these are classified by the Company as Competence Centers that provide all pre-sale consultations, technical support, maintenance, customization and configuration services. Most Competence Centers sell the Company's products only, although some sell hardware or compatible solutions for other sectors.

Some of the smaller markets such as Malaysia, Turkey or Chile are typically run by a single Competence Center with a few staff who operate a network of agents or promotional partners to cover the territory. They provide all local technical services and are visited and invited for up-date training at suitable points in every year.

Below is a breakdown of the Company's total revenue by geographic market for the last three (3) calendar years.

	DECEMBER 31, 2002	DECEMBER 31, 2001	DECEMBER 31, 2000
Net revenues			
Italy	$ 4,520	$ 4,120	$ 3,584
United Kingdom	4,447	4,007	4,045
United States	2,095	950	609
Rest of World	215	231	205
Consolidated net revenues	$ 11,277	$ 9,308	$ 8,443

Sales by geographic region reported in the table above are based on the location of the invoicing company. Sales from the United Kingdom include sales to the following geographic regions:
Europe $2,892,000, $2,720,000, and $2,388,000 in 2002, 2001 and 2000 respectively. Asia $1,401,000, $1,213,000 and $1,548,000 in 2002, 2001 and 2000 respectively. North America $72,000, $0,and $0 in 2002, 2001 and 2000 respectively and Rest of the World $82,000, $74,000 and $109,000 in 2002,2001 and 2000 respectively .
Sales from the USA include sales to the following geographic regions: North America $2,050,000, $909,000 and $536,000 in 2002,2001 and 2000 respectively and Rest of the World $61,000,$41,000 and $73,000 in 2002,2001 and 2000 respectively.

The Company's sales fluctuate throughout the quarterly operating periods as a result of variable factors such as seasonal customer demand and timing of software releases. Seasonality may be influenced by a number of factors. In Europe, the third calendar quarter is generally weaker than the others because of well recognized summer vacation periods in July and August. Also the fourth quarter is traditionally the strongest because many mold and die companies buy capital goods products at the end of their financial or budget years which are predominantly calendar year oriented. In some countries particularly in Asia where more customers purchase upgrades in preference to maintenance agreements, sales are stronger following the issue of a new software release. During the second quarter 2002, revenues were adversely affected by world events, with some business being deferred to the fourth quarter.

Seasonality for revenues has been as follows for the 2002 quarters (as a % of annual revenue):

Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter

----	------------	------------	-----------	-----------
2002	21%	21%	15%	43%

MARKETING.

The Company employs a broad series of marketing activities to promote its products and develop name recognition and visibility. The Company uses print and online advertising, online promotions, and regional marketing development in an effort to further penetrate the tooling segment of the CAD/CAM market. In addition to online promotions, the Company uses the Internet as a marketing tool that increases its visibility in the market place, offers downloadable product demonstrations and facilitates communication between the Company and its clients. The Company also employs three distinct marketing strategies to strengthen its position in the market place. The Company's three marketing strategies are as follows:

Product Strategy: For the past four years the Company has focused the VISI-Series products as specialist CAD/CAM software for the niche "mold and die" sector. Providing specialist solutions for a single sector has enabled the Company to position itself as a potential reference point for this niche market sector and has added significantly to its customers' productivity. By adding and building-in the knowledge of a specific design or manufacturing process, the resulting software is substantially more productive in achieving results compared to even third generation CAD systems.

Internet Strategy: The Company believes that by adopting a number of measures to more forcefully adapt its business to the Internet it could increase margins, gain competitive advantage, and provide valuable customer services.

The Internet is currently used to provide technical support for all dealers and customers, internal communications and reporting as well as supporting website information for customers and investors. The Company currently makes extensive use of the Internet by offering helpdesk and an FTP service for dealers and an on-line support service, for both Competence Centers and end users. In addition, upgrades and system improvements are also offered to customers via the Internet.

The Company is working to provide some downloadable options to its CAD/CAM product range. At present, the availability of all applications is limited by the bandwidths available to customers, which restricts the accessibility of large CAD/CAM applications. Such downloadable options will provide some direct purchasing possibilities when sufficient bandwidth becomes more widely available to the Internet Infrastructure

Acquisition Strategy: The Company has developed manufacturing software (CAM) applications for more than 12 years and attains much of its revenue from CAM software or applications allied with CAM software. The Company believes that the CAM market is highly fragmental with approximately 50 competing suppliers. Some of these suppliers operate in a single geographic market or manufacturing segment. Some have failed to adopt the latest solid modeling and three dimensional technologies and others have falling sales. For these reasons the Company believes the CAM market may be ready to consolidate in much the same way as the CAD market has reduced the number of global suppliers from around thirty to ten over the last decade.

The Company believes that by combining the right CAM and/or component technology companies with sector based products or interlocking geographic distribution it could become a larger broad based CAM company that provides a greater range of applications to a wider geographic area.

To this end the Company made its first such acquisition in purchasing the Italian

company Vero Tecnologie S.p.A in 2000 to attain its component technology for the manufacture of progressive die. This acquisition broadened the Company's manufacturing offering as well as strengthening sales and distribution of its products in the Milan area of Italy.

On March 2nd, 2001 Ubiquity Software Corporation Ltd a UK company sold the assets of its Electronic Data Interchange (EDI) division to Vero International Software UK Ltd, a UK subsidiary of the Company ("VERO UK")(See Item 4A for a description of this acquisition).

On July 1, 2002, the company's U.S. subsidiary, Vero International, Inc. acquired the Company's Canadian distributor. (See Item 4A for a description of this acquisition).

On September 28th, 2002 NC Graphics (Cambridge) Ltd a UK company sold its Machining Strategist 3D CAM to VI Group plc (See Item 4A for a description of this acquisition).

PATENTS, LICENSES AND/OR CONTRACTS.

The Company seeks to protect the proprietary rights to its software through contract provisions, license agreements and the registration of trademarks. The Company sells a series of modular software products under the registered trade name VISI-Series. The Company's trademarks are registered in the UK, USA, Canada, Italy and Japan and the Company has applied for registration in all member states countries of the Madrid protocol.

The Company's software products and documentation are provided under license agreements that provide for the protection of all intellectual property. The use of the Company's software is accessed by the provision of a password associated with the end-user's security key. The Company generally enters into confidentiality or license agreements with its employees, resellers, customers, consultants, and corporate partners, and generally controls access to and distribution of its software, documentation and other proprietary information. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information the Company regards as proprietary. Although the Company utilizes software security devices and/or key codes to prevent unauthorized use or copying of its products, preventing unauthorized use of software is difficult. There can be no assurance that the steps taken by the Company will prevent misappropriation of its technology, particularly in foreign countries where the laws may not protect the Company's proprietary rights as fully as do the laws of the United States and the United Kingdom. (See, Risk Factors, Item 3.D).

COMPETITION.

The CAD/CAM software industry, characterized by rapid advances in technology and evolving customer requirements, is highly competitive. The Company faces competition from numerous companies in all of its products. Also, some of the Company's competitors are larger and more established, benefit from greater market recognition and have greater financial, production and marketing resources than the Company. The Company believes that due to the increasingly larger number of companies that operate in this market, it has no major single competitor or group of competitors. The principle factors permitting the

Company's products to compete successfully against its competitors' products are: (i) the compatibility of the Company's products with other software applications and existing and

emerging industry standards; (ii) the Company's ongoing product development; (iii) the offering of innovative products that incorporate both surface modeling and solid modeling, use the C++ programming language and adopt the Windows TM operating system; (iv) the level and breath of the Company's technological integration; (v) the technical expertise and support provided by the Company through its Competence Centers; (vi) the reputation of the Company among its providers as well as customers; and, (vii) the cost-efficient pricing of ownership of the Company's products coupled with the products' high-end capabilities.

MATERIAL EFFECTS OF GOVERNMENT REGULATIONS. None.

C. Organizational structure.

SUBSIDIARIES.

As of December 31st 2002 the Company had the following subsidiaries all of which are engaged in the development, marketing and distribution of the Company's products:

	Percentage ownership	Country of incorporation
Vero International Software S.r.l.	100%	Italy
Vero International Software UK Limited	100%	United Kingdom
Vero International, Inc.	100%	USA
*Vero Sistemi e Consulenze S.r.l.	100%	Italy
**Vero Tooling Solutions, Inc.	100%	Canada
Vero Tecnologie S.p.A.	100%	Italy