

Registered number
4008954

High Integrity Solutions Limited

Abbreviated Accounts

30 June 2006



**High Integrity Solutions Limited
Report and Abbreviated Accounts
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High Integrity Solutions Limited
Company Information

Directors

RM Stewart
RC Trotter
PJ Lester
JA McDermid
Dr PJ Goodchild
RJ Abbott
DM Hughes
TB Waters

Secretary

RC Trotter

Auditor

Grant Thornton UK LLP
Manor Court
Barnes Wallis Road
Segensworth
Fareham
Hampshire PO15 5GT

Bankers

National Westminster Bank Plc
52 West Street
Fareham
Hampshire PO16 0JX

Solicitors

Clarkslegal LLP
1 Forbury Square
The Forbury
Reading RG1 3EB

Registered office

Ebenezer House
5A Poole Road
Bournemouth
Dorset BH2 5QJ

Registered number

4008954

High Integrity Solutions Limited
Independent auditors' Report

Report of the Independent auditor to High Integrity Solutions Limited
under section 247B of the Companies Act 1985

We have examined the abbreviated accounts set out on pages 4 to 9 together with the full financial statements of High Integrity Solutions Limited for the year ended 30 June 2006 prepared under section 226 of the Companies Act 1985.

This report is made solely to the company, in accordance with Section 247B of the Companies Act 1985. Our work has been undertaken so that we might state to the company those matters we are required to state to them in a special auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the abbreviated accounts in accordance with section 246 of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with sections 246(5) and (6) of the Act to the registrar of companies and whether the abbreviated accounts have been properly prepared in accordance with those provisions and report our opinion to you..

Basis of Opinion

We conducted our work in accordance with Bulletin 2006/3, "The special auditor's report on abbreviated accounts in the United Kingdom" issued by the Auditing Practices Board. In accordance with that Bulletin we have carried out the procedures we considered necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts, and that the abbreviated accounts to be delivered are properly prepared.

Opinion

In our opinion, the company is entitled to deliver abbreviated accounts prepared in accordance with sections 246(5) and (6) of the Companies Act 1985 and the abbreviated accounts on pages 4 to 9 have been properly prepared in accordance with those provisions

Grant Thornton UK LLP

Grant Thornton UK LLP
Registered auditors
Chartered Accountants

Southampton

Date

5/10/06.

High Integrity Solutions Limited
Abbreviated Balance Sheet
as at 30 June 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	2	92,675	53,823
Current assets			
Debtors	221,000	166,920	
Cash at bank and in hand	175,112	1,745,021	
	396,112	1,911,941	
Creditors: amounts falling due within one year	(575,973)	(642,489)	
Net current (liabilities)/assets		(179,861)	1,269,452
Total assets less current liabilities		(87,186)	1,323,275
Creditors: amounts falling due after more than one year		-	(150,000)
Deferred income		(408,000)	(25,838)
Net (liabilities)/assets		<u>(495,186)</u>	<u>1,147,437</u>
Capital and reserves			
Called up share capital	3	236,573	236,573
Share premium		3,084,575	3,084,575
Shares to be issued	4	-	-
Profit and loss account		(3,816,334)	(2,173,711)
Shareholders' (deficit)/funds		<u>(495,186)</u>	<u>1,147,437</u>

These abbreviated accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

These abbreviated accounts were approved by the directors on 5 October 2006 and signed on their behalf by:



RM Stewart
 Director

High Integrity Solutions Limited
Notes to the Abbreviated Accounts
for the year ended 30 June 2006

1 Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005).

Changes in accounting policies

In preparing the financial statements for the current year the company has adopted the Financial Reporting Standard for Smaller Entities (effective January 2005). The adoption of this standard has required the directors to assess the substance of the contractual arrangements entered into of its equity instruments. The directors have concluded that the Ordinary share capital and the Deferred shares contain no liability component and as such are presented as equity instruments. The A Ordinary share holders are entitled to a cumulative preferential net cash dividend per share equal to 20% of profit after tax for each year ended 30 June from 2009 onwards. Whilst the directors acknowledge that this represents a liability component, the directors cannot estimate the fair value of the liability component with any degree of accuracy based on the forecasts prepared beyond June 2008 given the nature and stage of development of the business. Accordingly, no liability element is disclosed.

Going concern

The directors have completed a third round of funding in August 2006. Accordingly, the directors have prepared a detailed business plan which supports the directors' opinion that for the foreseeable future, being at least 12 months from the date of approval of the accounts, the company should have adequate resources to continue to trade. Therefore, the directors consider it appropriate that the accounts have been prepared under the going concern basis.

Turnover

Turnover represents amounts invoiced to third parties after deducting credit notes, trading discounts and sales tax. The company derives revenue from software licences, professional services advice and other products and services.

Software licences - revenue allocable to software licences, telephone support and maintenance updates is recognised over the period of the licence on a straight line basis. Costs associated with ongoing maintenance and support are expensed as incurred.

Professional Services Advice (PSA) - includes post contract development, training, adapting and enabling services. Revenue allocable to PSA and other products and services is recognised as the products are shipped or service provided.

Depreciation

Depreciation has been provided at the following rates in order to write off the assets over their estimated useful lives.

Computer Equipment	25% per annum straight line
Office Equipment	20% per annum straight line
Furniture	20% per annum straight line

High Integrity Solutions Limited
Notes to the Abbreviated Accounts
for the year ended 30 June 2006

1 Accounting policies (continued)

Research and development

Research and development costs are charged to the profit and loss account in the year in which they are incurred. Tangible fixed assets used for research and development are depreciated in accordance with the company's policy.

Stocks

Stock is valued at the lower of cost and net realisable value.

Deferred taxation

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Grants

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Financial Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities and presented as such in the balance sheet.

High Integrity Solutions Limited
Notes to the Abbreviated Accounts
for the year ended 30 June 2006

2 Tangible fixed assets

	Plant and machinery etc £
Cost	
At 1 July 2005	95,421
Additions	70,069
At 30 June 2006	<u>165,490</u>
Depreciation	
At 1 July 2005	41,598
Charge for the year	31,217
At 30 June 2006	<u>72,815</u>
Net book value	
At 30 June 2006	<u>92,675</u>
At 30 June 2005	<u>53,823</u>

3 Share capital	2006 No	2005 No	2006 £	2005 £
Authorised:				
Ordinary shares of £0.01 each	15,544,900	15,544,900	155,449	155,449
A Ordinary shares of £0.01 each	13,785,100	13,785,100	137,851	137,851
Deferred shares of £0.0001 each	226,900	226,900	23	23
			<u>293,323</u>	<u>293,323</u>

Ordinary shares

The Ordinary shares entitle the holder to dividends which the Board resolves to distribute pro rata to the number of shares held. The holder is also entitled to receive notice of, attend and vote at general meetings.

On 25 August 2006 the authorised share capital of the company was increased by the creation of 9,982,543 new Ordinary shares of £0.01 each. 586,600 Ordinary shares with an aggregate nominal value of £5,866 were allotted for a consideration of £30,000.

High Integrity Solutions Limited
Notes to the Abbreviated Accounts
for the year ended 30 June 2006

3 Share capital (continued)

A Ordinary shares

A Ordinary shares entitle the holder to dividends which the Board resolves to distribute pro rata to the number of shares held. Holders are entitled to a cumulative preferential net cash dividend per share (calculated exclusive of any tax credit associated therewith) equal to 20% of profit after tax for each financial year commencing 1 July 2008, the first dividend being payable on 31 July 2009. Holders are entitled to receive notice of and attend and vote at general meetings. A Ordinary shares will be converted and redesignated to Ordinary shares immediately prior to and conditional upon a sale or listing. On conversion, such new Ordinary shares will rank pari passu with the Ordinary shares then in issue. In the event of a default under the Articles of Association dated 26 May 2005, the A Ordinary shareholders will have five votes for each A Ordinary share held.

On 25 August 2006 the authorised share capital of the company was increased by the creation of 20,687,457 new A Ordinary shares of £0.01 each.

Deferred shares

On conversion of the A Ordinary shares to Ordinary shares, Deferred shares will automatically be converted to Ordinary shares.

Holders are not entitled to receive notice of nor attend, speak or vote at general meetings and are not entitled to any income.

	2006	2005	2006	2005
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £0.01 each	9,869,900	9,869,900	98,699	98,699
A Ordinary shares of £0.01 each	13,785,100	13,785,100	137,851	137,851
Deferred shares of £0.0001 each	226,586	226,586	23	23
			<u>236,573</u>	<u>236,573</u>

Movement in share capital

	2006	2005
	£	£
At 1 July	236,573	89,900
Shares issued	-	146,673
At 30 June	<u>236,573</u>	<u>236,573</u>

4 Shares to be issued

	2006	2005
	£	£
At 1 July	-	925,000
Transferred to profit and loss reserves	-	(925,000)
At 30 June	<u>-</u>	<u>-</u>

High Integrity Solutions Limited
Notes to the Abbreviated Accounts
for the year ended 30 June 2006

5 Post Balance Sheet Event

On 25 August 2006, the directors successfully concluded third round fundraising of up to £1.1 million pre expenses. This required a restructuring of the existing share capital and financing arrangements, and the issue of convertible redeemable loan stock.

Under a supplemental investment agreement dated 25 August 2006, the company authorised the issue of up to £1,058,000 10% secured convertible loan stock 2011 which is convertible into A Ordinary shares. The loan stock is secured by a debenture dated 25 August 2006 by way of fixed and floating charges over the company's assets.

On 25 August 2006, £470,000 of loan stock was issued to investors, the balance being issued as pre-determined milestones are completed. On 25 August 2006, the authorised share capital of the company was increased by the creation of 20,687,457 new A Ordinary shares of £0.01 each.

On the same date, the company authorised the issue of up to 821,240 Ordinary shares of £0.01 each for a total consideration of £42,000. On 25 August 2006 the authorised share capital of the company was increased by the creation of 9,982,543 new Ordinary shares of £0.01 each. On 25 August 2006, 586,600 Ordinary shares of £0.01 each with an aggregate nominal value of £5,866 were allotted for a consideration of £30,000.

The repayment terms of the £300,000 working capital loan from BAE Systems Plc included within other creditors were renegotiated on 25 August 2006. Accrued interest owing on the principal loan totalling £35,261 was rolled up into the loan and interest ceased to accrue from that date until 25 August 2007. The loan will be repaid in instalments of £5,000 per month commencing August 2007 with the balance of the loan and accrued interest being repayable in full on 31 December 2008.

A royalty agreement was entered into with BAE Systems Plc on 25 August 2006 to pay royalties of 3% of any sales made to BAE Systems plc. The maximum amount of royalties payable to BAE Systems plc under this agreement is capped at £300,000.