

Amending

Registered number
4008954

High Integrity Solutions Limited

Financial Statements

30 June 2007

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High Integrity Solutions Limited
Financial Statements
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High Integrity Solutions Limited
Company Information

Directors

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

Secretary

RC Trotter

Auditor

Grant Thornton UK LLP
1 Dorset Street
Southampton
Hampshire SO15 2DP

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

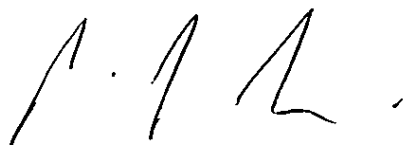
High Integrity Solutions Limited
Report of the chairman

The year to 30th June 07 has been one of significant progress for High Integrity Solutions. The signing of two major contracts has both moved us close to breakeven position and has illustrated the long term nature of our relationships with our customer base with an order backlog that totalled £4.65 million at the year end. The Sales Pipeline is very encouraging and the rate of conversion to orders will be critical to the future success of the company.

During the year we have strengthened our core management and since the year end have made a senior appointment to lead and develop our customer facing team. It is highly encouraging to report that we continue to attract industry leading candidates to our company.

The support from our Investors has been both constant and timely with follow-on funding provided to both further develop our product offering and to enable the commercial potential of existing VDS to be exploited. Our staff have responded to the challenges of changing from a purely technical development operation to a customer-facing organisation with enthusiasm.

We look forward with confidence to the opportunities of the coming year.



PJ Lester
Chairman

Date 24th September 2007

High Integrity Solutions Limited

Report of the directors

The directors present their report and the financial statements for the year ended 30 June 2007

Principal activities

The company's principal activity during the year continued to be the design of software for use in safety critical systems

Review of business activities

During the year convertible redeemable loan stock was issued to fund development of sales of the company's products as more fully set out in the notes to the accounts. With a mature and robust product the company is now moving towards being sales led. Contracts with a value of £4.65 million have been signed and significant further contracts are expected during the coming year.

As detailed in note 8 to the financial statements, the directors acknowledge that there is an equity element associated with the 10% convertible redeemable loan stock issued in the year to the principal shareholders, but they have chosen not to assess the fair value of the liability element of the instrument in line with 'FRS 25 Financial Instruments: Disclosure and Presentation' as they consider that the resultant calculation would be subject to significant uncertainty and do not consider the expense of such an exercise justifiable.

Directors

The directors who served during the year were as follows:

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

Qualifying third party indemnity provision

During the financial year, a qualifying third party indemnity provision for the benefit of all directors was in force.

High Integrity Solutions Limited

Report of the directors

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

The directors are responsible for the maintenance and integrity of the website and accordingly the auditors accept no responsibility for the information published.

Information published on the website is accessible in many countries and legislation in the UK concerning the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

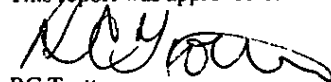
Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Small company exemption

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small entities.

This report was approved on behalf of the board


RC Trotter
Director

Date 24th September 2007

High Integrity Solutions Limited

Report of the Independent Auditor to the members of High Integrity Solutions Limited

We have audited the financial statements of High Integrity Solutions Limited for the year ended 30 June 2007 which comprise the profit and loss account, the balance sheet and notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (Effective January 2005).

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Report of the directors and financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Report of the directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

High Integrity Solutions Limited

Report of the Independent Auditor (continued) to the members of High Integrity Solutions Limited

Qualified opinion arising from departure from FRS 25 'Financial Instruments: Disclosure and Presentation'

In forming our opinion, we have considered the adequacy of the disclosures made in note 8 to the financial statements concerning the £1,410,000 of 10% convertible redeemable loan stock issued in the year to the principal shareholders. Whilst the directors have acknowledged that there is an equity component associated to this loan stock, they have chosen not to assess the fair value of the liability component of the instrument. Accordingly, no equity element has been disclosed. This is contrary to the requirements of FRS 25 'Financial Instruments: Disclosure and Presentation'.

Except for the non compliance with FRS 25 'Financial Instruments: Disclosure and Presentation' referred to in the preceding paragraph, in our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 30 June 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the directors is consistent with the financial statements



Grant Thornton UK LLP
Registered Auditors
Chartered Accountants

Southampton

Date 24 September 2007

High Integrity Solutions Limited
Profit and Loss Account
for the year ended 30 June 2007

	Notes	2007 £	2006 £
Turnover		889,971	624,271
Cost of sales		(21,092)	(1,968)
Gross profit		<u>868,879</u>	<u>622,303</u>
Administrative expenses		(2,328,459)	(2,448,015)
Other operating income	2	141,822	56,780
Operating loss	3	<u>(1,317,758)</u>	<u>(1,768,932)</u>
Interest receivable		506	28,132
Interest payable		(62,269)	(24,953)
Loss on ordinary activities before taxation		<u>(1,379,521)</u>	<u>(1,765,753)</u>
Tax on loss on ordinary activities	4	165,705	123,130
Loss for the financial year		<u>(1,213,816)</u>	<u>(1,642,623)</u>
Retained loss for the financial year	11	<u><u>(1,213,816)</u></u>	<u><u>(1,642,623)</u></u>

There were no other recognised gains and losses during the year

The notes and accounting policies form an integral part of the financial statements

High Integrity Solutions Limited
Balance Sheet
as at 30 June 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	5	88,239	92,675
Current assets			
Debtors	6	232,474	221,000
Cash at bank and in hand		<u>182,540</u>	<u>175,112</u>
		415,014	396,112
Creditors: amounts falling due within one year	7	<u>(388,729)</u>	<u>(983,973)</u>
Net current assets/(liabilities)		26,285	(587,861)
Total assets less current liabilities		<u>114,524</u>	<u>(495,186)</u>
Creditors: amounts falling due after more than one year	8	(1,740,291)	-
Net liabilities		<u>(1,625,767)</u>	<u>(495,186)</u>
Capital and reserves			
Called up share capital	9	259,490	236,573
Share premium	10	3,144,893	3,084,575
Profit and loss account	11	(5,030,150)	(3,816,334)
Shareholders' (deficit)		<u>(1,625,767)</u>	<u>(495,186)</u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective January 2005)

These financial statements were approved by the directors on 24th September 07 and signed on their behalf by



RM Stewart
Director

The notes and accounting policies form an integral part of the financial statements

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

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)

Going concern

The directors completed a third round of funding in August 2006 and have secured forward contract orders totalling £4.65 million at the year end and enjoy the continuing support of the investors. In view of the loss for the period and net liabilities position, the directors have prepared a detailed business plan which supports their 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

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.

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.

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

1 Accounting policies (continued)

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

The adoption of the Financial Reporting Standard for Smaller Entities (effective January 2005) required the directors to assess the substance of the contractual arrangements entered into of its equity instruments. The directors concluded that the Ordinary share capital and the Deferred share capital contain no liability component and as such are presented as equity instruments. The A Ordinary shareholders are entitled to a cumulative preferential net cash dividend per share equal to 20% of profit after tax for each year ended 30 June 2009 onwards. Whilst the directors acknowledge that this represents a liability component the directors have chosen not to assess the fair value of the liability element due to the uncertainty of the quantum profitability from 30 June 2009. Accordingly, no liability element is disclosed.

2 Other operating income	2007	2006
	£	£
DTI grants for research and development	141,572	56,780
Other income	250	-
	<u>141,822</u>	<u>56,780</u>

Under the terms of the DTI grants, the amounts are repayable in the event of a change of control of the company.

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

3 Operating loss	2007	2006
	£	£
This is stated after charging		
Depreciation of owned fixed assets	42,963	31,217
Directors' remuneration	283,086	418,487
Pension costs	97,720	106,692
Auditors' remuneration (audit fee only)	12,000	11,150
Auditors' remuneration (non audit fees)	8,904	17,800
	<u>8,904</u>	<u>17,800</u>

No directors (2006 nil) participated in the money purchase pension scheme

4 Taxation on loss on ordinary activities	2007	2006
	£	£
Tax credit	(165,705)	(123,130)
	<u>(165,705)</u>	<u>(123,130)</u>

The tax credits relate to Research and Development tax credits

Unrelieved tax losses of £3,671,000 (2006 £3,138,000) remain available to offset against future taxable trading profits

5 Tangible fixed assets

	Plant and machinery etc £
Cost	
At 1 July 2006	165,490
Additions	<u>38,527</u>
At 30 June 2007	<u>204,017</u>
Depreciation	
At 1 July 2006	72,815
Charge for the year	<u>42,963</u>
At 30 June 2007	<u>115,778</u>
Net book value	
At 30 June 2007	<u>88,239</u>
At 30 June 2006	<u>92,675</u>

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

6 Debtors	2007	2006
	£	£
Trade debtors	152,689	35,632
Other debtors	<u>79,785</u>	<u>185,368</u>
	<u><u>232,474</u></u>	<u><u>221,000</u></u>

7 Creditors: amounts falling due within one year	2007	2006
	£	£
Trade creditors	89,237	85,602
Other taxation and social security costs	44,777	52,567
Accruals and deferred income	224,715	545,804
Other creditors	<u>30,000</u>	<u>300,000</u>
	<u><u>388,729</u></u>	<u><u>983,973</u></u>

Included in other creditors is an unsecured loan from BAE Systems Plc of £335,291. Under the terms of the agreement dated 25 August 2006, the loan will be repaid in instalments of £5,000 per month commencing January 2008 and, therefore, £30,000 is shown as repayable within one year and £305,291 is shown as due after more than one year, 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 to BAE Systems Plc. The maximum amount of royalties payable to BAE Systems Plc under this agreement is capped at £300,000.

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

8 Creditors: amounts falling due after more than one year	2007	2006
	£	£
Other creditors	<u>1,740,291</u>	<u>-</u>

Under an agreement dated 25 August 2006, the company created £1,058,000 10% secured convertible redeemable loan stock 2011. A supplemental agreement dated 25 May 2007, increased the loan stock that could be issued to £2,000,000.

£1,435,000 of the loan stock had been issued at the period end, of which £1,410,000 was issued to principal shareholders as detailed in note 15.

The loan stock holders are entitled to convert stock held into A Ordinary shares on or after but not before the redemption date being the day after the fifth anniversary of the date of issue.

Interest accruing at a rate of 10% per annum, until the third anniversary of the date of the instrument, and 50% until conversion thereafter is payable on a six monthly basis.

The loan stock is secured by debentures dated 25 August 2006 and 25 May 2007, by means of fixed charges over the interests in any freehold and leasehold property, intellectual property rights and goodwill, and floating charges over all other property, assets and rights of the company both present and future.

The directors acknowledge that there is an equity element associated with the 10% convertible redeemable loan stock issued in the year to the principal shareholders, but have chosen not to assess the fair value of the liability element of the instrument in line with 'FRS 25 Financial Instruments: Disclosure and Presentation' as they consider that the resultant calculation would be subject to significant uncertainty and do not consider the expense of such an exercise justifiable.

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

9 Share capital	2007	2006	2007	2006
	No	No	£	£
Authorised:				
Ordinary shares of £0.01 each	25,527,443	15,544,900	255,274	155,449
A Ordinary shares of £0.01 each	34,472,557	13,785,100	344,725	137,851
Deferred shares of £0.0001 each	226,900	226,900	23	23
			<u>600,022</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. During the year, 2,291,686 Ordinary shares with an aggregate nominal value of £22,917 were allotted for a consideration of £83,235.

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.

	2007	2006	2007	2006
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £0.01 each	12,161,586	9,869,900	121,616	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	226,856	226,856	23	23
			<u>259,490</u>	<u>236,573</u>

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

9 Share capital (continued)

Movement in share capital	2007	2006
	£	£
At 1 July	236,573	236,573
Shares issued	22,917	-
At 30 June	<u>259,490</u>	<u>236,573</u>

10 Share premium

	2007	2006
	£	£
At 1 July	3,084,575	3,084,575
Shares issued	60,318	-
At 30 June	<u>3,144,893</u>	<u>3,084,575</u>

11 Profit and loss account

	2007	2006
	£	£
At 1 July	(3,816,334)	(2,173,711)
Retained loss	(1,213,816)	(1,642,623)
At 30 June	<u>(5,030,150)</u>	<u>(3,816,334)</u>

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

12 Capital commitments

The company had no capital commitments at 30 June 2007 or 30 June 2006

13 Commitments under operating leases

2007

2006

£

£

At the year end the company had annual commitments under non-cancellable operating leases as set out below

Operating leases which expire

within one year

1,354

1,354

within two to five years

53,250

53,250

54,604

54,604

14 Contingent liabilities

There were no contingent liabilities at 30 June 2007 or 30 June 2006

High Integrity Solutions Limited
Notes to the Accounts
for the year ended 30 June 2007

15 Related party transactions

Under an agreement dated 26 May 2005, R M Stewart, R C Trotter and P J Lester were required to acquire legal ownership of 834,545 Ordinary shares from J E Land for £20,000, for transfer to an Employee Benefit Trust formed for the benefit of the Company's employees. All beneficial rights and obligations relating to the shares belong to the Employee Benefit Trust.

RJ Abbott served as a non executive director of the company on behalf of Albany Ventures Co-Invest Limited Partnership, of which he is a partner and as such has a beneficial interest in 66,810 A Ordinary shares. Included in administrative expenses is £15,000 (2006 £15,000) in respect of director's fees payable to Albany Ventures Co-Invest Limited Partnership in respect of RJ Abbott's services to the company during the year. In addition, £6,000 (2006 £nil) was paid to Albany Ventures Co-Invest Limited Partnership for loan arrangement fees.

Included in consultancy fees is £5,000 (2006 £5,484) paid to Noble Fund Managers Limited. In addition, £3,000 (2006 £nil) was paid to Noble Fund Managers Limited for loan arrangement fees.

DM Hughes served as a non executive director of the company on behalf of Foresight Venture Partners which is the investment adviser to Foresight Technology VCT Plc and Foresight 2 VCT Plc. Included within administrative expenses is £15,000 (2006 £15,000) in respect of director's fees payable to Foresight Venture Partners in respect of DM Hughes' services to the company during the year. In addition, £6,000 (2006 £nil) was paid to Foresight Venture Partners for loan arrangement fees.

Included in other creditors due after one year are the following loans:

Foresight Technology VCT Plc £405,000 (2006 £nil) Interest paid £17,132 (2006 £nil)

Foresight 2 VCT Plc £135,000 (2006 £nil) Interest paid £5,711 (2006 £nil)

Noble VCT Plc £270,000 (2006 £nil) Interest paid £11,421 (2006 £nil)

Albany Ventures Co -Invest Limited Partnership £6,874 (2006 £nil) Interest paid £289 (2006 £nil)

Albany Ventures Fund III Limited Partnership £593,126 (2006 £nil) Interest paid £23,466 (2006 £nil)

Transactions with BAE Systems Plc

£335,291 (2006 £300,000) working capital loans remain outstanding at the year end (note 7)

Included within turnover is work undertaken on behalf of BAE Systems Plc totalling £878,921 (2006 £483,419). £156,639 (2006 £29,164) was outstanding at the year end.

16 Controlling party

No one party is considered to have overall control.