

Registered number: 4034960

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**ENVISIONAL SOLUTIONS LIMITED**

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**UNAUDITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**For the year ended 31 December 2005**



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## ENVISIONAL SOLUTIONS LIMITED

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### COMPANY INFORMATION

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**DIRECTORS**

S Block  
B Coppin  
D R Gammon  
D Hassabis  
C Swannack  
M Underwood  
M Wheatley (appointed 13 December 2005)

**SECRETARY**

E Allison

**COMPANY NUMBER**

4034960

**REGISTERED OFFICE**

Westbrook Centre  
Milton Road  
Cambridge  
CB4 1YG

**ACCOUNTANTS**

Peters Elworthy & Moore  
Chartered Accountants  
Salisbury House  
Station Road  
Cambridge  
CB1 2LA

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## ENVISIONAL SOLUTIONS LIMITED

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## ENVISIONAL SOLUTIONS LIMITED

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### DIRECTORS' REPORT For the year ended 31 December 2005

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The directors present their report and the financial statements for the year ended 31 December 2005.

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

In determining how amounts are presented within items in the profit and loss account and balance sheet, the directors have had regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.

#### PRINCIPAL ACTIVITIES

Envisional, Europe's leading internet monitoring company, offers a world-class service harnessing unique, customisable technology to capture the full potential of information on the Internet. The group's principal activity is the provision of online anti-piracy, anti-fraud and brand protection and intelligence solutions through the licensing of our technology or as a managed service.

Our latest product, Scrutiny, was launched in August 2005. Part of our anti-piracy solution, Scrutiny is a specialised analysis and intelligence resource supplying a complete industry-wide overview of significant and emerging events of concern to businesses threatened by internet piracy.

Our client list has continued to grow with the addition of several film and entertainment companies, while our already strong position in the banking and financial services, retail and consumer product sectors has also improved. Interest in our services and products continues to increase as businesses become more aware of the new risks presented by the Internet.

During 2005 the company's financial position has continued to improve. Revenue increased, being 37% up on the previous year. Costs have also increased as the business continues to add resources in order to improve customer service. The company raised a five-year term loan of £150,000 from HSBC Bank to strengthen the working capital position.

We have recruited key new people in Sales and Marketing, and a new Chief Executive, Michael Wheatley, took up his position in November 2005. Michael is an experienced software company executive, with over 20 years experience of technology, sales, marketing and general management positions in Europe, the USA and Asia.

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## ENVISIONAL SOLUTIONS LIMITED

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### DIRECTORS' REPORT For the year ended 31 December 2005

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#### DIRECTORS

The directors who served during the year and their beneficial interests in the company's issued share capital were:

	Ordinary shares of 10p each	
	<u>31/12/05</u>	<u>1/1/05</u>
S Block	4,843	4,843
B Coppin	115,000	115,000
D R Gammon	164,601	164,601
D Hassabis	129,027	129,027
C Swannack	115,000	115,000
M Underwood	385,000	385,000
M Wheatley (appointed 13 December 2005)	-	-

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

This report was approved by the board on

16 March 2006

and signed on its behalf.

  
Secretary

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## ENVISIONAL SOLUTIONS LIMITED

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### ACCOUNTANTS' REPORT TO THE BOARD OF DIRECTORS ON THE UNAUDITED FINANCIAL STATEMENTS OF ENVISIONAL SOLUTIONS LIMITED

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You consider that the company is exempt from audit for the year ended 31 December 2005. You have acknowledged, on the balance sheet, your responsibilities for ensuring the company keeps accounting records which comply with section 221 of the Companies Act 1985 and for preparing financial statements which give a true and fair view of the state of affairs of the company and of its profit or loss for the financial year.

In accordance with your instructions, we have prepared the financial statements on pages 2 to 12 from the accounting records of the company and on the basis of information and explanations given to us.

We have not carried out an audit or any other review and consequently we do not express an opinion on these financial statements.

*Peters Elworthy & Moore*

**Peters Elworthy & Moore**

Chartered Accountants

Salisbury House  
Station Road  
Cambridge  
CB1 2LA

*16 March 2006*

# ENVISIONAL SOLUTIONS LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 31 December 2005

	Note	2005 £	2004 £
<b>TURNOVER</b>	1	<b>1,013,944</b>	<b>737,207</b>
Cost of sales		(48,283)	(45,440)
<b>GROSS PROFIT</b>		<b>965,661</b>	<b>691,767</b>
Administrative expenses		(967,012)	(634,394)
Other operating income	4	16,828	12,162
<b>OPERATING PROFIT</b>	3	<b>15,477</b>	<b>69,535</b>
Interest receivable		1,746	702
Interest payable		(5,746)	(7,280)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>11,477</b>	<b>62,957</b>
<b>TAX ON PROFIT ON ORDINARY ACTIVITIES</b>	6	-	-
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	13	<b>£ 11,477</b>	<b>£ 62,957</b>

The notes on pages 8 to 14 form part of these financial statements.

# ENVISIONAL SOLUTIONS LIMITED

## CONSOLIDATED BALANCE SHEET As at 31 December 2005

	Note	£	2005 £	£	2004 £
<b>FIXED ASSETS</b>					
Tangible fixed assets	7		19,560		14,777
<b>CURRENT ASSETS</b>					
Debtors	9	254,651		164,424	
Cash at bank and in hand		298,062		59,125	
		552,713		223,549	
<b>CREDITORS:</b> amounts falling due within one year	10	(437,248)		(212,278)	
<b>NET CURRENT ASSETS</b>			115,465		11,271
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			135,025		26,048
<b>CREDITORS:</b> amounts falling due after more than one year	11		(149,166)		(51,666)
<b>NET LIABILITIES</b>			£ (14,141)		£ (25,618)
<b>CAPITAL AND RESERVES</b>					
Called up share capital			155,265		155,265
Share premium account	13		1,338,388		1,338,388
Other reserves	13		1,090,703		1,090,703
Profit and loss account	13		(2,598,497)		(2,609,974)
<b>SHAREHOLDERS' FUNDS</b>			£ (14,141)		£ (25,618)



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## ENVISIONAL SOLUTIONS LIMITED

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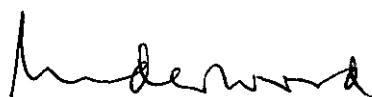
### CONSOLIDATED BALANCE SHEET (continued) As at 31 December 2005

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The directors consider that the company is entitled to exemption from the requirement to have an audit under the provisions of section 249A(1) of the Companies Act 1985 and members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 249B(2) of the Act. The directors acknowledge their responsibilities for ensuring that the company keeps accounting records which comply with section 221 of the Companies Act 1985, and for preparing financial statements which give a true and fair view of the state of affairs of the company as at 31 December 2005 and of its profit for the year then ended in accordance with the requirements of section 226, and which otherwise comply with the requirements of the Act relating to the financial statements so far as applicable to the company.

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

The financial statements were approved by the board on 16 March 2006 and signed on its behalf.



Director

The notes on pages 8 to 14 form part of these financial statements.

# ENVISIONAL SOLUTIONS LIMITED

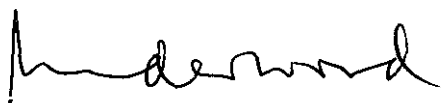
## COMPANY BALANCE SHEET As at 31 December 2005

	Note	£	2005 £	£	2004 £
<b>FIXED ASSETS</b>					
Investments	8		10,310		10,310
<b>CURRENT ASSETS</b>					
Debtors	9	1,684,708		1,557,208	
<b>CREDITORS:</b> amounts falling due within one year	10	(50,000)		(20,000)	
<b>NET CURRENT ASSETS</b>			1,634,708		1,537,208
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			1,645,018		1,547,518
<b>CREDITORS:</b> amounts falling due after more than one year	11		(149,166)		(51,666)
<b>NET ASSETS</b>			<u>£ 1,495,852</u>		<u>£ 1,495,852</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	12		155,265		155,265
Share premium account	13		1,338,388		1,338,388
Profit and loss account	13		2,199		2,199
<b>SHAREHOLDERS' FUNDS</b>			<u>£ 1,495,852</u>		<u>£ 1,495,852</u>

The directors consider that the company is entitled to exemption from the requirement to have an audit under the provisions of section 249A(1) of the Companies Act 1985 and members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 249B(2) of the Act. The directors acknowledge their responsibilities for ensuring that the company keeps accounting records which comply with section 221 of the Companies Act 1985, and for preparing financial statements which give a true and fair view of the state of affairs of the company as at 31 December 2005 and of its profit for the year then ended in accordance with the requirements of section 226, and which otherwise comply with the requirements of the Act relating to the financial statements so far as applicable to the company.

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Director

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## ENVISIONAL SOLUTIONS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

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#### 1. ACCOUNTING POLICIES

##### 1.1 Basis of preparation of financial statements

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).

##### 1.2 Basis of consolidation

The financial statements consolidate the accounts of Envisional Solutions Limited and all of its subsidiary undertakings ('subsidiaries'). Intra-group transactions, profits and balances are eliminated in full on consolidation.

##### 1.3 Cash flow

The company has taken advantage of the exemption in Financial Reporting Standard No.1 from the requirement to produce a cashflow statement on the grounds that it is a small group.

##### 1.4 Cash flow

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective January 2005).

##### 1.5 Going concern

During the year the group has produced a profit of £11,477 (£2004: £62,957) and has net current assets of £115,465 (2004: £11,271) including cash funds of £298,062 (2004: £59,125) at the year end. The directors are happy with the performance of the group in the sixth year of operation. They have prepared sales and cashflow forecasts which indicate that, if sufficient revenue is generated, the level of funding will be adequate and the group will continue in operational existence for the foreseeable future.

Accordingly, the financial statements have been prepared on a going concern basis which assumes that the level of funding will be adequate and the group will be able to meet its sales and cash forecasts.

If the group were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets as current assets.

##### 1.6 Investments

Share in subsidiaries are valued at cost less provision for permanent impairment.

##### 1.7 Turnover

Turnover comprises the value of licences and services supplied by the company, exclusive of Value Added Tax and trade discounts, adjusted by deferring revenue relating to future periods.

Licences and associated support are invoiced in advance. The licence element is recognised once a contract exists and any implementation and configuration have been completed. Associated support and periodic licence renewals are recognised on a straight line basis over the term of the contract.

Service agreements are also invoiced in advance. Approximately one third of the contract value is recognised on delivery of the first results to the specification of the customer. The remaining revenue is recognised on a straight line basis over the term of the contract.

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## ENVISIONAL SOLUTIONS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

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#### 1.8 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	20%	straight line
Computer equipment	-	33.3%	straight line
Office equipment	-	20%	straight line

#### 1.9 Research and development expenditure

Research and development expenditure is written off in the period in which it arises.

#### 1.10 Related party transactions

The group has taken advantage of the exemption under FRS 8 "Related party disclosures", from disclosing related party transactions with entities that are members of the Envisional Solutions Limited group. There were no other transactions with related parties that require disclosure.

### 2. TURNOVER

37.4% of the company's turnover (2004 - 26.0%) is attributable to geographical markets outside the United Kingdom.

### 3. OPERATING PROFIT

The operating loss is stated after charging/(crediting):

	2005 £	2004 £
Depreciation of tangible fixed assets:		
- owned by the company	12,530	13,793
Directors' emoluments	155,134	407,310
Pension costs	14,327	10,294
Difference on foreign exchange	(1,678)	7
	<u>          </u>	<u>          </u>

### 4. OTHER OPERATING INCOME

	2005 £	2004 £
Government grants received	16,828	12,162
	<u>          </u>	<u>          </u>

### 5. DIRECTORS' REMUNERATION

	2005 £	2004 £
Aggregate emoluments	£ 151,889	£ 115,143
	<u>          </u>	<u>          </u>

During the year retirement benefits were accruing to 2 directors (2004 - 3) in respect of money purchase pension schemes.

# ENVISIONAL SOLUTIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

### 6. TAXATION

	2005 £	2004 £
Analysis of tax charge in year		
Tax on profit on ordinary activities	£ -	£ -

There were no factors that affected the tax charge for the year which has been calculated on the profits on ordinary activities before tax at the standard rate of corporation tax in the UK applicable to the group.

#### Factors that may affect future tax charges

Claims made for a tax refund under the R & D tax credit arrangements will be credited on receipt. There are approximately £4,000,000 tax losses available for offset against future taxable profits.

### 7. TANGIBLE FIXED ASSETS

Group	Land and buildings £	Plant and machinery £	Furniture, fittings and equipment £	Total £
<b>Cost</b>				
At 1 January 2005	14,930	109,084	19,023	143,037
Additions	-	15,366	1,947	17,313
At 31 December 2005	14,930	124,450	20,970	160,350
<b>Depreciation</b>				
At 1 January 2005	12,769	100,370	15,121	128,260
Charge for the year	2,161	6,976	3,393	12,530
At 31 December 2005	14,930	107,346	18,514	140,790
<b>Net book value</b>				
At 31 December 2005	£ -	£ 17,104	£ 2,456	£ 19,560
At 31 December 2004	£ 2,161	£ 8,714	£ 3,902	£ 14,777

### 8. FIXED ASSET INVESTMENTS

# ENVISIONAL SOLUTIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

Company Cost or valuation At 1 January 2005 and 31 December 2005	Share in group under- takings £		Total £	
	£	10,310	£	10,310
<hr/>				
<b>9. DEBTORS</b>				
	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	£	£	£	£
<b>Due within one year</b>				
Trade debtors	114,349	120,941	-	-
Amounts owed by group undertakings	-	-	1,684,708	1,557,208
Other debtors	140,302	43,483	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>£ 254,651</b>	<b>£ 164,424</b>	<b>£ 1,684,708</b>	<b>£ 1,557,208</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>10. CREDITORS:</b>				
<b>Amounts falling due within one year</b>				
	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	£	£	£	£
Bank loans and overdrafts	50,000	20,000	50,000	20,000
Trade creditors	50,790	38,268	-	-
Social security and other taxes	38,998	36,964	-	-
Other creditors	297,460	117,046	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>£ 437,248</b>	<b>£ 212,278</b>	<b>£ 50,000</b>	<b>£ 20,000</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>11. CREDITORS:</b>				
<b>Amounts falling due after more than one year</b>				
	<b>Group</b>		<b>Company</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	£	£	£	£
Bank loans	£ 149,166	£ 51,666	£ 149,166	£ 51,666
	<hr/>	<hr/>	<hr/>	<hr/>

# ENVISIONAL SOLUTIONS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

On 16 June 2003 the company obtained a bank loan of £100,000 to fund the working capital requirements of the subsidiary company Envisional Limited, which is secured by a floating charge over the fixed and current assets of the group. Repayments are to be made in 60 equal monthly installments of £1,667 ending August 2008 and interest is being charged at 4% per annum over base rate.

On 25 October 2005 the company obtained a bank loan of £150,000 to fund working capital requirements of the subsidiary company Envisional Limited, which is secured by a floating charge over the fixed and current assets of the group. Repayments are to be made in 60 equal monthly installments of £2,500 ending December 2011 and interest is being charged at 3.5% per annum over base rate.

### 12. SHARE CAPITAL

	2005 £	2004 £
<b>Authorised</b>		
2,200,000 Ordinary shares of 10p each	£ 220,000	£ 220,000
<b>Allotted, called up and fully paid</b>		
1,552,645 Ordinary shares of 10p each	£ 155,265	£ 155,265

### 13. RESERVES

	Share premium account £	Other reserves £	Profit and loss account £
<b>Group</b>			
At 1 January 2005	1,338,388	1,090,703	(2,609,968)
Profit retained for the year			11,477
At 31 December 2005	£ 1,338,388	£ 1,090,703	£ (2,598,491)
<b>Company</b>			
At 1 January 2005		1,338,388	2,199
Profit retained for the year			-
At 31 December 2005		£ 1,338,388	£ 2,199

### 14. PENSION COMMITMENTS

The group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £14,327 (2004: £10,294). Contributions totaling £3,187 (2004: £4,013) are payable to the fund at the balance sheet date and are included in creditors.

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## ENVISIONAL SOLUTIONS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

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#### 15. OPERATING LEASE COMMITMENTS

At 31 December 2005 the group had annual commitments under non-cancellable operating leases as follows:

	2005 £	2004 £
<b>Group</b>		
<b>Expiry date:</b>		
Between 2 and 5 years	<u>32,000</u>	<u>2,471</u>

#### 16. PRINCIPAL SUBSIDIARIES

##### Principal subsidiaries

Company name	Country	Percentage Shareholding	Description
Envisional Limited	England and Wales	100	Ordinary 10p shares
Envisional Services Limited	England and Wales	100	Ordinary £1 shares
Envisional Software Solutions Limited	England and Wales	100	Ordinary £1 shares
Envisional Inc	U.S.A.	100	Ordinary \$0.01 shares
Envisional Technology Limited	England and Wales	100	Ordinary £1 shares

The principal activity of Envisional Limited is the provision of solutions for intellectual property protection and brand monitoring and intelligence on the Internet, through licensing of technology or by service agreements. The principal activity of Envisional Technology Limited is the ownership and licensing of software technology and related intellectual property. The other companies are dormant. All subsidiaries are included in these consolidated accounts.



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## ENVISIONAL SOLUTIONS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2005

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#### 17. SHARE OPTIONS

The group operates three share option schemes; an unapproved employees' share option scheme, an enterprise management incentives scheme and a company share option plan. The group has issued share options over ordinary 10p shares in Envisional Solutions Limited under the various option schemes as follows:

	<b>Number of options</b>
As at 1 January 2005	198,088
Options granted in the year	65,686
Options exercised in the year	-
Options lapsed/waived in the year	(6,900)
	<hr/>
As at 31 December 2005	256,874
	<hr/>

The number of shares subject to options at 31 December 2005 is given below. In each case, the exercise period is as detailed below.

<b>Date granted</b>	<b><u>Number of shares</u></b>	<b><u>Exercise price</u></b>
31 December 2001	5,000	£0.02
31 December 2001	1,700	£25.00
25 March 2002	44,288	£1.60
25 April 2002	27,600	£1.60
26 November 2002	82,500	£0.28
31 March 2004	30,500	£0.30
24 February 2005	33,600	£0.60
18 October 2005	31,686	£0.60

Options are granted at the discretion of the directors to purchase a specified number of 10p ordinary shares at a price determined at the time the option is granted. Subject to certain rules for specific circumstances such as a winding up, options are not exercisable before an initial public offering ("IPO"). For each scheme, where an option becomes exercisable as a result of an IPO, 25% of the option may be exercised on the day following the IPO, a further 25% of the option may be exercised six months after the IPO, a further 25% of the option may be exercised on the anniversary of the day following the IPO and the final 25% may be exercised on the second anniversary of the day following the IPO. If there has not been an IPO, then the option may be exercised on or after the fifth anniversary of the grant date.

Options granted under the share option schemes may not be exercised after the expiration of the period of 10 years beginning with the grant date.