

Envisional Solutions Plc  
Annual Report  
for the period ended 31 December 2001

Registered Number: 4034960



# **Envisional Solutions Plc**

## **Annual report for the period ended 31 December 2001**

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# **Envisional Solutions Plc**

## **Directors and advisors for the period ended 31 December 2001**

### **Directors**

#### *Executive*

B Earle (CEO)

S Boocock

B Coppin

C Swannack

#### *Non Executive*

D Hassabis (Chairman)

C R Barlas

S Block

D Norwood

### **Secretary**

E Allison

### **Registered Office**

Westbrook Centre

Milton Road

Cambridge

CB4 1YG

### **Auditors**

PricewaterhouseCoopers

Abacus House

Castle Park

Cambridge

CB3 0AN

### **Bankers**

Barclays Bank plc

PO Box 12820

London

N20 0WE

# Envisional Solutions Plc

## Directors' report for the period ended 31 December 2001

The directors present their annual report and the audited financial statements for the fourteen month period ended 31 December 2001.

### Principal activities

The group's principal activity is provision of solutions for intellectual property and brand monitoring and intelligence on the Internet, through licensing of technology or by annual service agreements.

### Review of business and future developments

On 4 July 2001, the directors re-registered the company as a public limited company to enable it to raise further investment for the group.

The group attracted £915,000 of private equity investment during the period. Following implementation of substantial cost cutting measures the group agreed terms in June 2002 for a further interim funding of £150,000. The directors are satisfied with the achievements of the second period of operations, and continue to seek investment and are taking other measures to secure the future of the business.

Development of the proprietary Discovery Engine has continued. The group markets its solutions to Brand owners in different business sectors, and during the period gained a number of bluechip "lighthouse" clients, both directly and through Partners.

### Results and dividends

The loss after taxation for the period ended 31 December 2001 was £1,650,787 (2000: loss of £566,062). The directors do not recommend the payment of a dividend (2000:£nil).

### Research and development

During the period, the group spent £92,955 (2000:£107,387) on research and development.

### Directors

The directors who held office during the period and their beneficial interests in the ordinary shares of the company (including trustee holdings) were:-

	10p Ordinary Shares	
	31 December 2001 Number	31 October 2000 or date of appointment Number
D Hassabis	125,000	23,000
B Coppin	115,000	23,000
C Swannack	115,000	23,000
N Gibson (resigned 23 November 2000)	52,500	8,000
C R Barlas (resigned 21 March 2002)	-	-
S Block	400	80
B Earle (appointed 15 January 2001)	1,200	-
E Allison (appointed 26 April 2001, resigned 26 November 2001)	-	-
S Boocock (appointed 26 April 2001, resigned 24 July 2002)	-	-
D Norwood (appointed 26 April 2001)	-	-

M Underwood was appointed as a director on 24 July 2002.

# Envisional Solutions Plc

## Share options

During the period, the following options over ordinary shares of 10p each were granted to directors of the company:

	At 1 November 2000 Number	Granted in the period Number	At 31 December 2001 Number	Exercise price per share
B Coppin	-	2,500	2,500	£25
C Swannack	-	2,500	2,500	£25
B Earle	-	20,000	20,000	£25
S Boocock	-	2,500	2,500	£25
S Block	-	1,500	1,500	£25
D Hassabis	-	1,500	1,500	£25
C R Barlas	-	1,500	1,500	£25
Total	-	32,000	32,000	

The general conditions of exercise are detailed in note 17 of the financial statements. No options were exercised by directors during the period.

## Creditor payment policy

The company's current policy concerning the payment of its trade creditors is to agree the terms of payment prior to contracting. Wherever possible the subsidiaries follow the same policy.

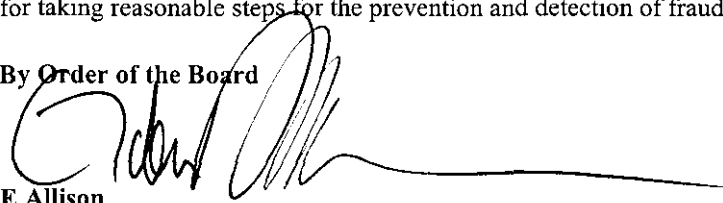
## Statement of directors' responsibilities

The directors are required by United Kingdom company law to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. The directors are required to prepare financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the period ended 31 December 2001. The directors also confirm that applicable accounting standards have been followed.

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.

By Order of the Board



E Allison  
Company Secretary

# Envisional Solutions Plc

## Independent auditors' report to the members of Envisional Solutions Plc

We have audited the financial statements on pages 5 to 19.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

### Fundamental uncertainty - going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on a going concern basis and the validity of this depends on the group successfully obtaining adequate additional funds to continue its activities. The financial statements do not include any adjustments that would result from a failure to secure such funds. Details of the circumstances relating to this fundamental uncertainty are described in Note 1. Our opinion is not qualified in this respect.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 December 2001 and of the loss and cashflows of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers*

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Cambridge

*, 29 July 2002.*

# Envisional Solutions Plc

## Profit and loss account for the period ended 31 December 2001

	Note	14 months to 31 December 2001 £	12 months to 31 October 2000 £
<b>Turnover</b>	2	<b>203,465</b>	30,250
Cost of sales		(103,090)	-
<b>Gross profit</b>		<b>100,375</b>	30,250
General and administrative expenses – pre UITF 17 charge		(1,616,432)	(621,594)
Share option compensation charge	3	(191,060)	-
Net operating expenses - total		(1,807,492)	(621,594)
<b>Operating loss</b>		<b>(1,707,117)</b>	(591,344)
Interest receivable and similar income		33,518	25,582
Interest payable and similar charges	6	(3,059)	(300)
<b>Loss on ordinary activities before taxation</b>	7	<b>(1,676,658)</b>	(566,062)
Taxation on loss on ordinary activities	8	25,871	-
<b>Loss on ordinary activities after taxation</b>	18,19	<b>(1,650,787)</b>	(566,062)
Profit and loss account at beginning of period		(566,062)	-
Loss for the period		(1,650,787)	(566,062)
Reversal of share option compensation charge		191,060	-
<b>Profit and loss account at end of period</b>		<b>(2,025,789)</b>	(566,062)

All amounts relate to continuing activities.

There have been no recognised gains and losses, other than the losses above, and therefore no separate statement of recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

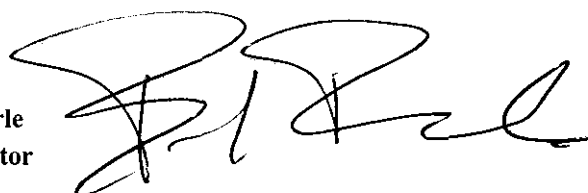
# Envisional Solutions Plc

## Consolidated and company balance sheets as at 31 December 2001

		Group		Company	
		31 December 2001 £	31 October 2000 £	31 December 2001 £	31 October 2000 £
	Note				
<b>Fixed assets</b>					
Tangible fixed assets	10	81,846	64,381	-	-
Investments	11	-	-	10,310	10,303
		81,846	64,381	10,310	10,303
<b>Current assets</b>					
Debtors due within one year	12	126,527	107,393	930,422	345,429
Cash at bank and in hand		411,394	936,593	330,000	-
		537,921	1,043,986	1,260,422	345,429
Creditors: amounts falling due within one year	13	(277,871)	(212,994)	(10,000)	-
Net current assets		260,050	830,992	1,250,422	345,429
Total assets less current liabilities		341,896	895,373	1,260,732	355,732
Creditors : amounts falling due after more than one year	14	(6,250)	(15,000)	-	-
Net assets		335,646	880,373	1,260,732	355,732
<b>Capital and reserves</b>					
Called up share capital	16	77,317	10,870	77,317	10,870
Share premium account	18	1,193,415	344,862	1,193,415	344,862
Other Reserves	18	1,090,703	1,090,703	-	-
Profit and loss account	18	(2,025,789)	(566,062)	(10,000)	-
Equity shareholders' funds	19	335,646	880,373	1,260,732	355,732

The financial statements on pages 5 to 19 were approved by the board of directors on 24 July 2002 and were signed on its behalf by:

B Earle  
Director





# Envisional Solutions Plc

## Consolidated cash flow statement for the period ended 31 December 2001

	Note	14 months to 31 December 2001 £	12 months to 31 October 2000 £
Net cash (outflow) from operating activities	20	(1,433,115)	(485,998)
Returns on investments and servicing of finance			
Interest received		33,518	25,582
Interest paid		(3,059)	(300)
Net cash inflow from returns on investments and servicing of finance		30,459	25,282
<b>Taxation</b>		<b>25,871</b>	<b>-</b>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(54,663)	(71,626)
Net cash (outflow) for capital expenditure		(54,663)	(71,626)
Net cash (outflow) before financing		(1,431,448)	(532,342)
<b>Financing</b>			
Issue of ordinary share capital		915,000	1,446,435
New bank loan		-	22,500
Repayment of bank loan		(8,750)	-
Net cash inflow from financing		906,250	1,468,935
<b>(Decrease) / increase in cash</b>	21,22	<b>(525,198)</b>	<b>936,593</b>

# Envisional Solutions Plc

## Notes to the financial statements for the period ended 31 December 2001

### 1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been reviewed by the board of directors in accordance with Financial Reporting Standard ("FRS") 18, "Accounting policies", and have been applied consistently, is set out below:

#### **Basis of preparing the financial statements – going concern assumption**

The directors estimate that cash held at the date of approval of the financial statements is not sufficient to continue funding the trading activities of the group for a further twelve months. Accordingly, the directors have implemented cost cutting measures in 2002 and are seeking additional funds, by raising further finance, which would enable the group to continue its activities for the foreseeable future. There is uncertainty over the amount of funds that would be obtained and whether they will be received within the expected timescale. However, the directors believe that the company will be able to obtain such funds and therefore it is appropriate that these financial statements are prepared on a going concern basis. This basis of preparation assumes that the company and the group will continue in operational existence for the foreseeable future, the validity of which depends on the company being able to obtain adequate additional funds to continue its activities.

If the group were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to revise 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.

#### **Basis of consolidation**

The consolidated accounts include the financial statements of the company and its subsidiary undertakings made up to 31 December 2001. Intra-group transactions, profits and balances are eliminated in full on consolidation.

Investments in subsidiaries are carried at cost. Amounts due from subsidiaries are stated at their recoverable amounts.

#### **Turnover**

Turnover represents amounts receivable for licences and associated support, and service agreements, net of VAT.

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 completion 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.

#### **Tangible fixed assets**

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values over the expected useful economic lives of the assets concerned. Depreciation is charged from the date the asset is brought into use. The principal annual rates used are:

Leasehold improvement	straight line over 10 years
Computer equipment	straight line over 3 years
Office furniture	straight line over 5 years

# Envisional Solutions Plc

## 1 Principal Accounting policies (continued)

### Research and development expenditure

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

### Operating leases

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

### Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

### Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise. The provisions of FRS 19, "Deferred tax", will be adopted in 2002 in line with the effective date of this accounting standard.

### Pension costs

The group operates a defined contribution pension scheme, the costs of which are charged to the profit and loss account as they are incurred. FRS 17, "Retirement benefits", which came into effect during the year, has no impact on the financial statements.

### Share options

In accordance with the provisions of Urgent Issues Task Force Abstract 17 ("Employee share schemes"), when options over shares are granted to employees, a charge being the estimated market value of the shares at the date of grant less the exercise price of the options is made to the profit and loss account. The charge is then credited back to reserves.

### Related party transactions

The company 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 Plc group. There were no other transactions with related parties that require disclosure.

## 2 Turnover

	14 months to 31 December 2001 £	Year to 31 October 2000 £
<b>Turnover by destination:</b>		
United Kingdom	182,592	30,250
Europe	20,873	-
	<b>203,465</b>	<b>30,250</b>

# Envisional Solutions Plc

## 3 Share option compensation charge

In accordance with the provisions of Urgent Issues Task Force Abstract 17 ("Employee Share Schemes") the company makes a charge to the profit and loss account when options are granted, the charge being the estimated market value of the shares at the date of grant less the exercise price of the options. The charge is then credited back to reserves. The amount charged to the profit and loss account, and credited to reserves, in the period was £191,060 (2000: £nil).

## 4 Employee information

The average monthly number of employees (including executive directors) employed by the group during the period was as follows:

	14 months to 31 December 2001 Number	Year to 31 October 2000 Number
Technical and development	13	7
Sales and marketing	5	2
General and administration	3	1
	21	10

	14 months to 31 December 2001 £	Year to 31 October 2000 £
<b>Staff costs (for the above persons)</b>		
Wages and salaries	897,866	220,733
Social security costs	91,023	20,971
Pension contributions (see note 24)	26,954	-
	1,015,843	241,704

## 5 Directors' emoluments

	14 months to 31 December 2001 £	Year to 31 October 2000 £
Aggregate emoluments	375,616	104,694
Aggregate group pension contributions to defined contribution schemes	17,398	-
	393,014	104,694

No directors exercised share options in the year (2000: none). Retirement benefits are accruing to five directors (including the highest paid director) under a defined contribution pension scheme.

# Envisional Solutions Plc

## 5 Directors' emoluments (continued)

### Highest paid director

	14 months to 31 December 2001 £	Year to 31 October 2000 £
Aggregate emoluments in respect of qualifying services	114,615	29,583
Group pension contributions to defined contribution scheme	12,000	-
	126,615	29,583

## 6 Interest payable and similar charges

	14 months to 31 December 2001 £	Year to 31 October 2000 £
Interest payable on bank loans and overdrafts	1,618	-
Other interest payable	1,441	300
	3,059	300

## 7 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	14 months to 31 December 2001 £	Year to 31 October 2000 £
Auditors' remuneration - audit services (company £3,500 (2000:£1,500))	8,500	3,500
Depreciation of tangible fixed assets		
- owned assets	36,213	7,245
Operating lease charges		
- other	33,249	-
Research and development expenditure	92,955	107,387
(Profit)/loss on foreign exchange	(5)	34

# Envisional Solutions Plc

## 8 Tax on loss on ordinary activities

	14 months to 31 December 2001 £	Year to 31 October 2000 £
Corporation tax recoverable in respect of research and development tax credits	25,871	-

Tax losses, which are subject to agreement with the Inland Revenue, amounted to £2,140,000 at 31 December 2001 (2000 : £498,000).

## 9 Loss for the financial period

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss for the financial year was £10,000 (2000:£nil).

## 10 Tangible fixed assets

Group	Leasehold improvements £	Computer equipment £	Office furniture £	Total £
<b>Cost</b>				
At 1 November 2000	14,930	40,693	16,003	71,626
Additions	-	51,679	2,984	54,663
Disposals	-	(1,558)	-	(1,558)
<b>At 31 December 2001</b>	<b>14,930</b>	<b>90,814</b>	<b>18,987</b>	<b>124,731</b>
<b>Depreciation</b>				
At 1 November 2000	327	6,533	385	7,245
Charge for the period	3,484	28,655	4,074	36,213
Disposals	-	(573)	-	(573)
<b>At 31 December 2001</b>	<b>3,811</b>	<b>34,615</b>	<b>4,459</b>	<b>42,885</b>
<b>Net book value</b>				
<b>At 31 December 2001</b>	<b>11,119</b>	<b>56,198</b>	<b>14,528</b>	<b>81,846</b>
At 31 October 2000	14,603	34,160	15,618	64,381

# Envisional Solutions Plc

## 11 Investments in subsidiary companies

### Interests in group undertakings

	Company 2001 £	Company 2000 £
Cost at 1 November	10,303	-
Additions in the period	7	10,303
<b>At 31 December</b>	<b>10,310</b>	<b>10,303</b>

Name of undertaking	Country of incorporation	Description of shares held	Interest in ordinary shares
Envisional Limited	England and Wales	Ordinary 10p shares	100%
Envisional Technology Limited	England and Wales	Ordinary £1 shares	100%
Envisional Services Limited	England and Wales	Ordinary £1 shares	100%
Envisional Software Solutions Limited	England and Wales	Ordinary £1 shares	100%
Envisional Inc	U.S.A.	Ordinary \$0.01 shares	100%

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.

The company purchased the entire share capital of Envisional Inc on 10 April 2001, the day on which the company was formed, for consideration of \$10.

## 12 Debtors

	Group		Company	
	31 December 2001 £	31 October 2000 £	31 December 2001 £	31 October 2000 £
Trade debtors	32,285	29,375	-	-
Other debtors	53,742	78,018	-	-
Prepayments and accrued income	14,629	-	-	-
Corporation tax recoverable	25,871	-	-	-
Amounts owed by group companies	-	-	930,422	345,429
	<b>126,527</b>	<b>107,393</b>	<b>930,422</b>	<b>345,429</b>

# Envisional Solutions Plc

## 13 Creditors: amounts falling due within one year

	Group		Company	
	31 December 2001 £	31 October 2000 £	31 December 2001 £	31 October 2000 £
Bank loan (see note 14)	7,500	7,500	-	-
Trade creditors	82,509	122,391	-	-
Other creditors	-	170	-	-
Other taxes and social security costs	88,061	10,858	-	-
Accruals and deferred income	99,801	72,075	10,000	-
	277,871	212,994	10,000	-

## 14 Creditors: amounts falling due after more than one year

	Group		Company	
	31 December 2001 £	31 October 2000 £	31 December 2001 £	31 October 2000 £
Bank loan	6,250	15,000	-	-

### Maturity of debt

Bank loans repayable by instalments are as follows:

	Group		Company	
	31 December 2001 £	31 October 2000 £	31 December 2001 £	31 October 2000 £
In more than one year but not more than two years	6,250	7,500	-	-
In more than two years but not more than five years	-	7,500	-	-
	6,250	15,000	-	-
In one year or less, or on demand	7,500	7,500	-	-
Total bank loan repayments	13,750	22,500	-	-

The unsecured bank loan of £13,750 is the balance remaining on a loan for £22,500 payable in 36 equal instalments commencing November 2000, and bearing interest at a fixed rate of 6% per annum.



# Envisional Solutions Plc

## 15 Deferred taxation

No provision for deferred taxation has been made, as it is probable that no liability will arise in the foreseeable future due to the availability of tax losses. Amounts unrecognised have been calculated using the appropriate rate of tax. The analysis of deferred tax liabilities and (assets) for the group is as follows:

	Amounts recognised		Amounts unrecognised	
	2001	2000	2001	2000
	£	£	£	£
Tax effect of timing differences because of:				
Difference between capital allowances and depreciation	-	-	21,950	13,616
Losses	-	-	(641,377)	(149,492)
Total	-	-	(620,427)	(135,876)

The company had no potential deferred tax liabilities or assets at 31 December 2001.

## 16 Called up share capital

	31 December 2001 £	31 October 2000 £
<b>Authorised</b>		
1,200,000 ordinary shares of 10p each (2000: 770,000)	120,000	77,000
<b>Allotted, called up and fully paid</b>		
773,170 ordinary shares of 10p each (2000: 108,704)	77,317	10,870

### Movements during the period

On 4 July 2001, the authorised share capital was increased in connection with the re-registration of the company as a public limited company.

On 6 February 2001 the company issued 4,000 ordinary shares of 10p each for £500,000 in cash. On 28 March 2001 the company issued 440 ordinary shares of 10p each for £55,000 in cash. On 25 May 2001 the company issued 240 ordinary shares of 10p each for £30,000 in cash. On 4 July 2001 the company issued 453,536 ordinary shares of 10p each as a 4 for 1 bonus issue in order to increase share capital prior to the company's re-registration as a public limited company. The share premium account was used for the bonus issue. On 20 December 2001 the company issued 206,250 ordinary shares of 10p each for £330,000 in cash.

# Envisional Solutions Plc

## 17 Share options and warrants

### 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 Plc under the various option schemes as follows:

	Number of options
As at 1 November 2000	-
Options granted in the year	*48,335
Options exercised in the year	-
Options lapsed in the year	(1,635)
<b>As at 31 December 2001</b>	<b>46,700</b>

The number of shares subject to options at 31 December 2001 is given below. In each case, the exercise period is as detailed below.

Date granted	Number of shares *	Exercise price
2 January 2001	5,000	£25
2 January 2001	5,000	£0.10
2 January 2001	2,500	£3.50
3 January 2001	1,825	£25
29 January 2001	20,000	£25
1 February 2001	500	£0.10
2 April 2001	2,500	£25
9 April 2001	2,500	£25
20 June 2001	5,625	£25
16 August 2001	1,250	£25
	<b>46,700</b>	

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.

\* All options granted before 4 July 2001 have been adjusted to reflect the four for one bonus issue which took place on 4 July 2001. The number of options held was multiplied by 5 and the grant price of these options was divided by 5.

# Envisional Solutions Plc

## 17 Share options and warrants (continued)

### Warrants

On 13 November 2000 the company entered into an agreement with Evolution Capital Limited. In consideration for Evolution Capital Limited agreeing to carry out and perform services for the company, Evolution Capital Limited was granted a right to subscribe for 2,083 fully paid ordinary shares at an exercise price of £125 per ordinary share. This warrant was adjusted to 10,415 shares at an exercise price of £25 per ordinary share following the bonus issue on 4 July 2001. The warrant may be exercised only on one occasion and will lapse if not exercised prior to the earlier of the end of the exercise period (the three month period from 31 July 2003 to 31 October 2003) or a sale of the business.

## 18 Reserves

Group	Other reserves £	Share premium account £	Profit and loss account £
At 1 November 2000	1,090,703	344,862	(566,062)
Premium on issue of shares	-	893,906	-
Four for one bonus issue (see note 16)	-	(45,353)	-
Loss for the period	-	-	(1,650,787)
Reversal of share option compensation charge	-	-	191,060
<b>At 31 December 2001</b>	<b>1,090,703</b>	<b>1,193,415</b>	<b>(2,025,789)</b>

Company	Other reserves £	Share premium account £	Profit and loss account £
At 1 November 2000	-	344,862	-
Premium on issue of shares	-	893,906	-
Four for one bonus issue (see note 16)	-	(45,353)	-
Loss for the period	-	-	(10,000)
<b>At 31 December 2001</b>	<b>-</b>	<b>1,193,415</b>	<b>(10,000)</b>

The group previously operated as one company, Envisional Limited. That company is now a subsidiary of Envisional Solutions Plc. The premium on the original shares issued by Envisional Limited represents a merger reserve, in accordance with FRS6, and is included within other reserves in accordance with the Companies Act 1985.

# Envisional Solutions Plc

## 19 Reconciliation of movement in shareholders' funds

	14 months to 31 December 2001 £	Year ended 31 October 2000 £
Opening shareholders' funds	880,373	-
Proceeds from issue of ordinary shares	915,000	1,446,435
Loss for the period	(1,650,787)	(566,062)
Reversal of share option compensation charge (see note 3)	191,060	-
<b>Closing shareholders' funds</b>	<b>335,646</b>	<b>880,373</b>

## 20 Cash flow from operating activities

Reconciliation of operating loss to net cash outflow from operating activities:

	2001 £	2000 £
Operating loss	(1,707,117)	(591,344)
Loss on disposal of fixed assets	986	-
Depreciation	36,213	7,245
Share option compensation charge (see note 3)	191,060	-
(Increase) in debtors	(19,134)	(107,393)
Increase in creditors	64,877	205,494
<b>Net cash (outflow) from operating activities</b>	<b>(1,433,115)</b>	<b>(485,998)</b>

## 21 Reconciliation of net cash flow to movement in net funds

	2001 £	2000 £
(Decrease)/increase in cash	(525,198)	936,593
Decrease/(increase) in borrowings	8,750	(22,500)
<b>Movement in net (deficit)/funds in the period</b>	<b>(516,448)</b>	<b>914,093</b>
Net funds at 1 January	914,093	-
<b>Net funds at 31 December</b>	<b>397,645</b>	<b>914,093</b>

## Envisional Solutions Plc

### 22 Analysis of net funds

	At 1 January 2001 £	Cashflow £	At 31 December 2001 £
Cash at bank and in hand	936,593	(525,198)	411,395
Bank loan	(22,500)	8,750	(13,750)
<b>Net funds</b>	<b>914,093</b>	<b>(516,448)</b>	<b>(397,645)</b>

### 23 Operating lease commitments

At 31 December 2001 the group had annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings 2001 £	Other 2001 £	Land and buildings 2000 £	Other 2000 £
Expiring between two and five years	30,117	2,904	29,920	-

### 24 Pension obligations

The group operates a defined contribution personal pension scheme for employees and directors. The total pension cost for the group was £26,954 (2000:£nil). There were outstanding contributions at the period end of £12,923 (2000:£nil).

### 25 Ultimate controlling party

The company has no ultimate controlling party.

### 26 Post balance sheet event

On 24 July 2002 the company held an Extraordinary General Meeting at which resolutions were passed to increase the company's authorised share capital to £220,000 divided into 2,200,000 ordinary shares of 10p each, to authorise the directors to allot the unissued ordinary shares and to re-register the company as a private company with the name Envisional Solutions Limited.