
ENVISIONAL SOLUTIONS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2003



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COMPANIES HOUSE 14/10/04
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COMPANIES HOUSE 01/10/04

ENVISIONAL SOLUTIONS LIMITED

COMPANY INFORMATION

DIRECTORS

S Block
B Coppin
B Earle (resigned 14 November 2003)
D Hassabis
D Norwood (resigned 30 June 2003)
C Swannack
M Underwood
D R Gammon (appointed 26 November 2003)

SECRETARY

E Allison

COMPANY NUMBER

4034960

REGISTERED OFFICE

Westbrook Centre
Milton Road
Cambridge
CB4 1YG

AUDITORS

Imray & Co.
Chartered Accountants
38 Station Road
Cambridge
CB1 2JH

ENVISIONAL SOLUTIONS LIMITED

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ENVISIONAL SOLUTIONS LIMITED

DIRECTORS' REPORT For the year ended 31 December 2003

The directors present their report and the financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

Envisional, the **online monitoring** company, provides a world-class service harnessing innovative technology that realises the full potential of information on the Internet. The group's principal activity is the provision of solutions for intellectual property protection and brand intelligence online, through licensing of technology or by annual service agreements.

The proprietary **Discovery Engine** technology was further developed during 2003, and among new research projects Envisional was awarded a Smart grant for additional innovative research and development in the area of online sentiment analysis. The powerful image matching capability was further developed to include video and moving images.

The group continued to market solutions for brand and intellectual property monitoring, digital asset tracking, anti-piracy and anti-fraud protection. A growing number of leading companies have taken the service in sectors such as pharmaceutical, retail, consumer, sports and in particular the banking and insurance sector where many well known high street institutions are on the client list. There is now a significant level of market awareness of the online problems addressed by the company's products and increasing market interest in its range of solutions. The number of customers and reselling partners outside the UK has increased.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £119,580 (2002 - Loss £527,564).

The directors are satisfied with the performance of the group in the fourth year of operation, and expect 2004 to show significant further improvement in profitability. The directors do not recommend the payment of a dividend.

DIRECTORS

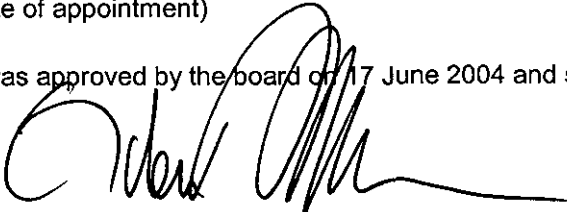
The directors who served during the year and their beneficial interests in the company's issued share capital was:

	Ordinary shares of 10 each	
	31/12/03	1/1/03
S Block	400	400
B Coppin	115,000	115,000
B Earle (resigned 14 November 2003)	-	1,200
D Hassabis	125,000	125,000
D Norwood (resigned 30 June 2003)	-	-
C Swannack	115,000	115,000
M Underwood	385,000	385,000
D R Gammon (appointed 26 November 2003)	159,475	140,475*

(* held on date of appointment)

This report was approved by the board on 17 June 2004 and signed on its behalf.

E Allison
Secretary



ENVISIONAL SOLUTIONS LIMITED

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

As described on the balance sheet you are responsible for the preparation of the financial statements for the year ended 31 December 2003 set out on pages 3 to 15 and you consider that the company is exempt from an audit under section 249A(1) of the Companies Act 1985.

In accordance with your instructions, we have compiled these unaudited financial statements in order to assist you to fulfil your statutory responsibilities, from the accounting records of the company and from information and explanations supplied to us.



Imray & Co.

Chartered Accountants

38 Station Road
Cambridge
CB1 2JH

9 September 2004

ENVISIONAL SOLUTIONS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT For the year ended 31 December 2003

	Note	2003 £	2002 £
TURNOVER	1,2	525,680	342,016
Cost of sales		(94,292)	(55,055)
GROSS PROFIT		431,388	286,961
General and administrative expenses		(572,041)	(832,172)
Other operating income	4	24,081	-
OPERATING LOSS	3	(116,572)	(545,211)
Interest receivable		155	2,427
Interest payable	7	(3,163)	(2,376)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(119,580)	(545,160)
TAX ON LOSS ON ORDINARY ACTIVITIES	8	-	17,596
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(119,580)	(527,564)
LOSS BROUGHT FORWARD		(2,553,351)	(2,025,787)
LOSS CARRIED FORWARD		<u>£(2,672,931)</u>	<u>£(2,553,351)</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2003 or 2002 other than those included in the profit and loss account.

The notes on pages 6 to 15 form part of these financial statements.

ENVISIONAL SOLUTIONS LIMITED

CONSOLIDATED BALANCE SHEET As at 31 December 2003

	Note	£	2003 £	2002 £
FIXED ASSETS				
Tangible fixed assets	9		19,944	46,804
CURRENT ASSETS				
Debtors	11	109,372		81,032
Cash at bank and in hand		57,000		90,479
		<u>166,372</u>		<u>171,511</u>
CREDITORS: amounts falling due within one year	12	<u>(203,225)</u>		<u>(187,310)</u>
NET CURRENT LIABILITIES			<u>(36,853)</u>	<u>(15,799)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>(16,909)</u>	<u>31,005</u>
CREDITORS: amounts falling due after more than one year	13		<u>(71,666)</u>	<u>-</u>
NET (LIABILITIES)/ASSETS			<u>£ (88,575)</u>	<u>£ 31,005</u>
CAPITAL AND RESERVES				
Called up share capital	14		155,265	155,265
Share premium account			1,338,388	1,338,388
Other reserves			1,090,703	1,090,703
Profit and loss account			<u>(2,672,931)</u>	<u>(2,553,351)</u>
SHAREHOLDERS' FUNDS - ALL EQUITY	16		<u>£ (88,575)</u>	<u>£ 31,005</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 2003 and of its loss 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 were approved by the board on 17 June 2004 and signed on its behalf.

M Underwood
Director



The notes on pages 6 to 15 form part of these financial statements.

ENVISIONAL SOLUTIONS LIMITED

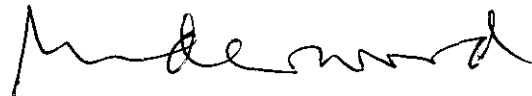
COMPANY BALANCE SHEET As at 31 December 2003

	Note	£	2003 £	£	2002 £
FIXED ASSETS					
Investments	10		10,310		10,310
CURRENT ASSETS					
Debtors	11	1,577,208		1,485,598	
CREDITORS: amounts falling due within one year	12	(20,000)		-	
NET CURRENT ASSETS			1,557,208		1,485,598
TOTAL ASSETS LESS CURRENT LIABILITIES			1,567,518		1,495,908
CREDITORS: amounts falling due after more than one year	13		(71,666)		-
NET ASSETS			<u>£ 1,495,852</u>		<u>£ 1,495,908</u>
CAPITAL AND RESERVES					
Called up share capital	14		155,265		155,265
Share premium account			1,338,388		1,338,388
Profit and loss account			2,199		2,255
SHAREHOLDERS' FUNDS - All Equity	16		<u>£ 1,495,852</u>		<u>£ 1,495,908</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 2003 and of its loss 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 were approved by the board on 17 June 2004 and signed on its behalf.

M Underwood
Director



The notes on pages 6 to 15 form part of these financial statements.

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and are prepared in accordance with applicable accounting standards.

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 Going concern

During the year the group has incurred a loss of £119,580 ((2002: £527,564) and has net current liabilities of £36,853 (2002: £15,799) including cash funds of £57,001 (2002: £90,479) at the year end. During the year, the group was able to draw down a term loan of £100,000 from its bankers, and, as a result, had cash funds of £70,000 at the end of July 2004. The directors are satisfied with the performance of the group in the fourth year of operation, and expect 2004 to show significant further improvements in profitability. 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.

1.5 Investments

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

1.6 Turnover

Turnover comprises the invoiced value of licences and services supplied by the company, exclusive of Value Added Tax and trade discounts.

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.

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

1.7 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

1.8 Research and development expenditure

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

1.9 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss as incurred.

1.10 Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

1.11 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating loss.

1.12 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

1.13 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.

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

2. TURNOVER

The whole of the turnover is attributable to the principal activity.

A geographical analysis of turnover is as follows:

	2003 £	2002 £
UK	410,672	280,096
Other EU	33,088	28,621
Rest of World	81,920	33,299
	<u>£ 525,680</u>	<u>£ 342,016</u>

3. OPERATING LOSS

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

	2003 £	2002 £
Depreciation of tangible fixed assets:		
- owned by the company	34,361	37,882
Auditors' remuneration (group and company)	4,200	8,000
Operating lease rentals:		
- plant and machinery	2,471	2,471
- other operating leases	36,479	56,462
Difference on foreign exchange	(53)	(165)
Research and development	191,588	138,000
	<u> </u>	<u> </u>

4. OTHER OPERATING INCOME

	2003 £	2002 £
Government grants received	<u>24,081</u>	<u>-</u>

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

5. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2003 £	2002 £
Wages and salaries	363,438	516,335
Social security costs	39,566	48,883
Other pension costs	9,283	17,301
	<u>£ 412,287</u>	<u>£ 582,519</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2003 No.	2002 No.
Development and services	7	9
Sales and marketing	1	2
Finance and administration	1	2
	<u>9</u>	<u>13</u>

6. DIRECTORS' REMUNERATION

	2003 £	2002 £
Emoluments	<u>£ 172,772</u>	<u>£ 214,391</u>
Company pension contributions to money purchase pension schemes	<u>£ 4,150</u>	<u>£ 9,835</u>

During the year retirement benefits were accruing to 5 directors (2002 - 5) in respect of money purchase pension schemes.

7. INTEREST PAYABLE

	2003 £	2002 £
On bank loans and overdrafts	<u>£ 3,163</u>	<u>£ 2,376</u>

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

8. TAXATION

	2003 £	2002 £
Adjustments in respect of prior periods	£ -	£ (17,596)

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £	2002 £
Loss on ordinary activities before tax	(119,580)	(545,160)
The taxation losses have been carried forward as referred to below	(35,874)	(163,548)
Effects of:		
Tax losses carried forward	35,874	163,548
Adjustments to tax charge in respect of prior periods	-	(17,596)
Current tax charge/(credit) for year (see note above)	£ -	£ (17,596)

Factors that may affect future tax charges

No provision for corporation tax exists due to the availability of tax losses of approximately £4,000,000.

9. TANGIBLE FIXED ASSETS

Group	Leasehold improvements £	Computer equipment £	Furniture, fittings and equipment £	Total £
Cost				
At 1 January 2003	14,930	93,824	18,156	126,910
Additions	-	6,634	867	7,501
At 31 December 2003	14,930	100,458	19,023	134,411
Depreciation				
At 1 January 2003	6,797	65,635	7,674	80,106
Charge for the year	2,986	27,732	3,643	34,361
At 31 December 2003	9,783	93,367	11,317	114,467
Net book value				
At 31 December 2003	£ 5,147	£ 7,091	£ 7,706	19,944
At 31 December 2002	£ 8,133	£ 28,189	£ 10,482	46,804

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

10. FIXED ASSET INVESTMENTS

Company	Share in group undertakings £
Cost or valuation	
At 1 January 2003 and 31 December 2003	£ 10,310

11. DEBTORS

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Due within one year				
Trade debtors	65,386	34,895	-	-
Amounts owed by group undertakings	-	-	1,577,208	1,485,598
Other debtors	29,905	29,904	-	-
Prepayments and accrued income	14,081	16,233	-	-
	<u>£ 109,372</u>	<u>£ 81,032</u>	<u>£ 1,577,208</u>	<u>£ 1,485,598</u>

12. CREDITORS:

Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank loans and overdrafts	20,000	6,250	20,000	-
Trade creditors	49,884	41,195	-	-
Corporation tax	98	98	-	-
Social security and other taxes	40,329	26,085	-	-
Accruals and deferred income	92,914	113,682	-	-
	<u>£ 203,225</u>	<u>£ 187,310</u>	<u>£ 20,000</u>	<u>£ -</u>

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

13. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank loans	£ 71,666	£ -	£ 71,666	£ -

Included within the above are amounts falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Between one and two years				
Bank loans	20,000	-	20,000	-
Between two and five years				
Bank loans	51,666	-	51,666	-

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 instalments of £1,667 ending August 2009 and interest is being charged at 4% per annum over base rate.

14. SHARE CAPITAL

	2003	2002
	£	£
Authorised		
2,200,000 Ordinary shares of 10p each	£ 220,000	£ 120,000
Allotted, called up and fully paid		
1,552,645 Ordinary shares of 10p each	£ 155,265	£ 155,265

15. RESERVES

	Share premium account	Other reserves	Profit and loss account
	£	£	£
Group			
At 1 January 2003	1,338,388	1,090,703	(2,553,351)
Loss retained for the year	-	-	(119,580)
At 31 December 2003	£ 1,338,388	£ 1,090,703	£ (2,672,931)

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

	Share premium account £	Profit and loss account £
Company		
At 1 January 2003	1,338,388	2,255
Profit retained for the year	-	(56)
At 31 December 2003	<u>£ 1,338,388</u>	<u>£ 2,199</u>

16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £	2002 £
Group		
Loss for the year	(119,580)	(527,564)
Shares issued during the year	-	77,950
Share premium on shares issued (net of expenses)	-	144,973
	<u>(119,580)</u>	<u>(304,641)</u>
Opening shareholders' funds	31,005	335,646
Closing shareholders' funds	<u>£ (88,575)</u>	<u>£ 31,005</u>
	2003 £	2002 £
Company		
Profit/(Loss) for the year	(56)	12,255
Shares issued during the year	-	77,948
Share premium on shares issued (net of expenses)	-	144,973
	<u>(56)</u>	<u>235,176</u>
Opening shareholders' funds	1,495,908	1,260,732
Closing shareholders' funds	<u>£ 1,495,852</u>	<u>£ 1,495,908</u>

The company has taken advantage of the exemption contained within section 230 of the Companies Act 1985 not to present its own profit and loss account.

The loss for the year dealt with in the accounts of the company was £56 (2002 - loss £12,255).

17. 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 £9,283 (2002 £17,301). Contributions totaling £9,795 (2002: £5,048) are payable to the fund at the balance sheet date and are included in creditors.

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

18. OPERATING LEASE COMMITMENTS

At 31 December 2003 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		2003	Other
	2003	2002		
Group	£	£	£	£
Expiry date:				
Within 1 year	-	6,389	-	-
Between 2 and 5 years	<u>30,709</u>	<u>29,920</u>	<u>2,471</u>	<u>2,471</u>

19. 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 Technology Limited	England and Wales	100%	Ordinary £1 shares
Envisional Inc	U.S.A	100%	Ordinary \$0.01 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.

ENVISIONAL SOLUTIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2003

20. 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:

	Number of options
As at 1 January 2003	262,300
Options granted in the year	625
Options exercised in the year	-
Options lapsed/waived in the year	(80,212)
	<hr/>
As at 31 December 2003	182,713

The number of shares subject to options at 31 December 2003 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	£0.10
3 January 2001	1,700	£25.00
1 February 2001	500	£0.10
25 March 2002	65,413	£1.60
25 April 2002	27,600	£1.60
26 November 2002	72,500	£0.30
26 November 2002	10,000	£0.28

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.