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**HERALD INVESTMENT
MANAGEMENT LIMITED**

**Annual Report and Accounts
For the Year to 31st March 2004**



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COMPANIES HOUSE 16/06/04

HERALD INVESTMENT MANAGEMENT LIMITED

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HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS

K J Potts
Chairman & Managing Director

D T A Boyle DL
Non - Executive Director

M F Trimble
Finance Director

SECRETARY

M F Trimble

REGISTERED OFFICE

12 Charterhouse Square
London
EC1M 6AX

AUDITORS

Ernst & Young LLP
Registered Auditors
1 More London Place
London
SE1 2AF

REGISTERED IN ENGLAND

No: 2877061

BANKERS

Barclays Bank
Hatton Garden Business Centre
99 Hatton Garden
London
EC1N 8DN

SOLICITORS

Macfarlanes
10 Norwich Street
London
EC4A 1BD

HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

DIRECTORS D T A Boyle DL
 K J Potts
 M F Trimble

SECRETARY M F Trimble

REGISTERED OFFICE: 12 Charterhouse Square, London EC1M 6AX

COMPANY NUMBER: 2877061

The Directors present their report with the financial statements of the Group for the year ended 31st March 2004.

RESULTS AND DIVIDENDS

The results for the year to 31st March 2004 are set out on page 7 to the financial statements.

The Directors are not recommending the payment of a final dividend (2003: 10p at a cost of £ 104,200).

An interim dividend of £253,000 (2003: £347,900) was paid on 10th December 2003. It is proposed that the retained profit of £1,495,638 (2003: £16,194) be added to reserves.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company during the year was that of investment managers and advisers. The Company manages a number of investment vehicles whose mandates are to invest in companies which are involved in technology, media and telecommunications internationally. Investee companies range from unquoted companies through small to large quoted companies.

The Directors are satisfied with the Company's trading results and with the state of affairs of the Company at the balance sheet date.

SHARE CAPITAL

Following approval by shareholders at the Annual General Meeting of the Company, held on 5th June 2003, the Company repurchased for cancellation 22,000 ordinary shares. On the same day 17,000 nil paid shares, with a call price of £13.50 per share, were issued to an employee of the Company. On 21st November 2003, in accordance with the terms of their issue, 25,000 nil paid shares were cancelled and an option over 25,000 ordinary shares lapsed.

Post Balance Sheet event – Following approval by shareholders at an Extraordinary General Meeting of the Company, held on 7th April 2004, the Company repurchased for cancellation 99,825 ordinary shares.

HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT (Cont'd)

DIRECTORS AND THEIR INTERESTS

The Directors of the Company at 31st March 2004 are listed above. W Backhouse resigned as a director of the Company on 11th September 2003 and D T A Boyle was appointed as a director on 26th September 2003.

The Directors' beneficial interests in the share capital of the Company were as follows: -

| | <u>At 31st March 2004</u> | <u>At 1st April 2003</u> |
|-------------|--------------------------------------|-------------------------------------|
| | <u>Ordinary shares</u> | <u>Ordinary shares</u> |
| | <u>of 0.1p each</u> | <u>of 0.1p each</u> |
| K J Potts | 340,000 | 340,000 |
| D T A Boyle | 6,000 | 0** |
| M F Trimble | 20,000* | 20,000* |

* - Nil paid

** - As at date of appointment

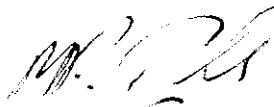
CHARITABLE CONTRIBUTIONS

The Group made charitable contributions during the year of £nil (2003: £750).

AUDITORS

A resolution to re-appoint Ernst & Young LLP, Registered Auditors, of 1 More London Place, London SE1 2AF, as auditors of the Company will be proposed at the Annual General Meeting.

By order of the Board



Company Secretary
14th May 2004

HERALD INVESTMENT MANAGEMENT LIMITED

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- make judgements and estimates that are reasonable and prudent; and
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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.

HERALD INVESTMENT MANAGEMENT LIMITED

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS

We have audited the Group's financial statements for the year ended 31st March 2004 which comprise Group Profit and Loss Account, Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company 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

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

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 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 with the Group is not disclosed.

We read the Directors' Report 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 United Kingdom 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditors
London

14th May 2004

HERALD INVESTMENT MANAGEMENT LIMITED

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2004

| | <u>Notes</u> | <u>2004</u> <u>£</u> | <u>2003</u> <u>£</u> |
|--|--------------|-------------------------|-------------------------|
| Turnover | 2 | 3,530,334 | 2,494,897 |
| Other income | | 56,489 | 75,585 |
| Administrative expenses | | (1,929,164) | (2,089,772) |
| Non-recurring release of provisions no longer required | | 157,868 | 0 |
| OPERATING PROFIT | 3 | 1,815,527 | 480,710 |
| Net profit on sale of investments | | 405,327 | 0 |
| Interest | 5 | 178,996 | 208,924 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 2,399,850 | 689,634 |
| Taxation | 6 | (651,212) | (224,518) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | 1,748,638 | 465,116 |
| Minority interests | | 0 | 3,178 |
| Dividends - Interim | 7 | (253,000) | (347,900) |
| Dividends - Final | 7 | 0 | (104,200) |
| RETAINED PROFIT FOR THE YEAR | 13 | <u>1,495,638</u> | <u>16,194</u> |
| Earnings per share | 12 | 170.0p | 45.0p |

All amounts relate to continuing activities.

Statement of total recognised gains and losses

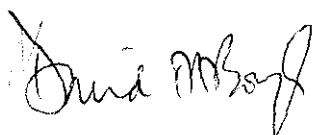
There were no recognised gains or losses other than the profit attributable to the shareholders of the Company.

The attached notes, on pages 11 to 17, form an integral part of these financial statements.

HERALD INVESTMENT MANAGEMENT LIMITED

GROUP BALANCE SHEET AT 31st MARCH 2004

| | Notes | £ | <u>2004</u> £ | £ | <u>2003</u> £ |
|--|-------|------------------|------------------|----------------|------------------|
| FIXED ASSETS | | | | | |
| Intangible fixed assets | 8 | 0 | | 45,833 | |
| Tangible assets | 8 | <u>37,776</u> | | <u>37,787</u> | |
| | | | 37,776 | | 83,620 |
| Investments | 9 | | 4,288,335 | | 6,828,849 |
| CURRENT ASSETS | | | | | |
| Debtors | 10 | 1,085,010 | | 1,140,927 | |
| Cash at bank and in hand | | <u>4,010,706</u> | | <u>453,735</u> | |
| | | 5,095,716 | | 1,594,662 | |
| CREDITORS | | | | | |
| Amounts falling due within one year | 11 | <u>627,061</u> | | <u>740,826</u> | |
| NET CURRENT ASSETS | | | 4,468,655 | | 853,836 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>8,794,766</u> | | <u>7,766,305</u> |
| MINORITY INTEREST | | | 0 | | 13,485 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>8,794,766</u> | | <u>7,779,790</u> |
| CAPITAL RESERVES | | | | | |
| Called up share capital | 12 | | 1,012 | | 1,042 |
| Capital redemption reserve | 13 | | 15,053 | | 15,006 |
| Share premium account | 13 | | 620,435 | | 815,952 |
| Profit and loss account | 13 | | 8,158,266 | | 6,947,790 |
| SHAREHOLDERS' FUNDS | 14 | | <u>8,794,766</u> | | <u>7,779,790</u> |



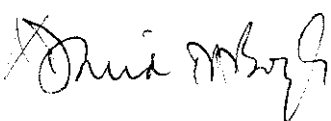

Directors

14th May 2004

The attached notes, on pages 11 to 17, form an integral part of these financial statements.

HERALD INVESTMENT MANAGEMENT LIMITED**COMPANY BALANCE SHEET AT 31st MARCH 2004**

| | Notes | £ | <u>2004</u> £ | £ | <u>2003</u> £ |
|--|-------|------------------|------------------|----------------|------------------|
| FIXED ASSETS | | | | | |
| Intangible fixed assets | 8 | 0 | | 45,833 | |
| Tangible assets | 8 | <u>37,776</u> | | <u>37,787</u> | |
| | | | 37,776 | | 83,620 |
| Investments | 9 | | 4,288,435 | | 6,828,948 |
| CURRENT ASSETS | | | | | |
| Debtors | 10 | 1,085,245 | | 1,167,906 | |
| Cash at bank and in hand | | <u>4,010,377</u> | | <u>453,627</u> | |
| | | 5,095,622 | | 1,621,533 | |
| CREDITORS | | | | | |
| Amounts falling due within one year | 11 | <u>627,067</u> | | <u>740,826</u> | |
| NET CURRENT ASSETS | | | 4,468,555 | | 880,707 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>8,794,766</u> | | <u>7,793,275</u> |
| CAPITAL RESERVES | | | | | |
| Called up share capital | 12 | | 1,012 | | 1,042 |
| Capital redemption reserve | 13 | | 15,053 | | 15,006 |
| Share Premium account | 13 | | 620,435 | | 815,952 |
| Profit and loss account | 13 | | 8,158,266 | | 6,961,275 |
| SHAREHOLDERS' FUNDS | | | <u>8,794,766</u> | | <u>7,793,275</u> |

**Directors**14th May 2004

The attached notes, on pages 11 to 17, form an integral part of these financial statements.

HERALD INVESTMENT MANAGEMENT LIMITED

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31st MARCH 2004

| | Notes | 2004 £ | 2003 £ |
|--|-------|------------------|--------------------|
| Net cash inflow from operating activities | 15 | 1,494,212 | 708,415 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 215,114 | 211,386 |
| Taxation | | (416,147) | (484,473) |
| Capital expenditure and financial investment | | | |
| Payments to acquire tangible fixed assets | | (26,764) | (15,345) |
| Sale of tangible fixed assets | | 189 | - |
| Payments to acquire investments | | (2,766,338) | (1,187,589) |
| Receipt from sale of investments | | 5,712,179 | - |
| Adjustment on part sale of subsidiary | | 206 | - |
| Equity dividends paid | | (357,200) | (347,900) |
| Financing | | | |
| Repurchase of Ordinary shares | | (298,480) | (102,510) |
| Increase/(decrease) in cash | | <u>3,556,971</u> | <u>(1,218,016)</u> |

The attached notes, on pages 11 to 17, form an integral part of these financial statements.

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31st MARCH 2004**

1. ACCOUNTING POLICIES

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared under the historical cost convention and are in accordance with applicable Accounting Standards.

BASIS OF CONSOLIDATION

The group financial statements consolidate the financial statements of Herald Investment Management Limited and its subsidiaries Herald GP Limited and Herald Jersey Ventures Limited. No profit and loss account is presented for Herald Investment Management Limited as permitted by section 230 of the Companies Act 1985.

TURNOVER

Turnover comprises earned investment management fees exclusive of value added tax. Performance related fees are accounted for in the period in which they are earned.

FIXED ASSETS

All fixed assets are initially recorded at cost.

DEPRECIATION

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset over its expected useful life as follows: -

Fixtures and fittings – 33 1/3% straight line.

Computer equipment is written off immediately on purchase.

Assets with an indefinite useful life, such as decorative items, are not depreciated.

Intangible assets – 33 1/3% straight line.

DEFERRED TAXATION

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

A deferred tax asset is only recognised when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the asset can be offset.

LEASING COMMITMENTS

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

PENSIONS

The Company makes payments to several employees' personal pension plans. The pension charge represents the amounts payable by the Company to these plans in respect of the year.

INVESTMENTS

Investments held for the long term are shown at cost. Permanent impairments in value are written off to the profit and loss account. Realised profits and losses are accounted for in the profit and loss account of the period in which the disposal occurs.

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2004

2. TURNOVER

The turnover and pre-tax profit are attributable to the principal activity of the Company, which is conducted wholly in the United Kingdom.

3. OPERATING PROFIT

| | <u>2004</u> | <u>2003</u> |
|-------------------------------------|-------------|-------------|
| (a) This is stated after charging: | <u>£</u> | <u>£</u> |
| Directors' remuneration (see below) | 374,380 | 375,624 |
| Auditors' remuneration | 13,350 | 12,600 |
| Depreciation charge | 72,419 | 100,340 |
| Operating property lease rentals | 144,850 | 132,968 |

(b) Directors' remuneration:

| | | |
|---|----------------|----------------|
| Other emoluments (including benefits in kind) | 357,880 | 359,124 |
| Pension contributions | 16,500 | 16,500 |
| | <u>374,380</u> | <u>375,624</u> |

(c) The emoluments of the highest paid director, who is also the chairman, excluding pension contributions, were £210,000 (2003: £209,250).

4. STAFF COSTS (including directors)

| | <u>2004</u> | <u>2003</u> |
|-----------------------|----------------|------------------|
| | <u>£</u> | <u>£</u> |
| Wages and salaries | 769,793 | 1,117,859 |
| Social security costs | 107,583 | 111,252 |
| Pension costs | 36,319 | 31,238 |
| | <u>913,695</u> | <u>1,260,349</u> |

| | | |
|-------------------------------------|-----------|-----------|
| Average monthly number of employees | <u>12</u> | <u>13</u> |
|-------------------------------------|-----------|-----------|

5. INTEREST

| | | |
|---------------------|-----------------|-----------------|
| Interest receivable | <u>£178,996</u> | <u>£208,924</u> |
|---------------------|-----------------|-----------------|

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2004

| 6. TAXATION | <u>2004</u> £ | <u>2003</u> £ |
|--|------------------|------------------|
| UK Corporation tax on profits of the year | 624,418 | 221,825 |
| Adjustments in respect of previous periods | 26,794 | 2,693 |
| | <u>651,212</u> | <u>224,518</u> |
| Tax on profit on ordinary activities | <u>651,212</u> | <u>224,518</u> |

Factors affecting the tax charge for the period

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK. The differences are explained below.

| | | |
|---|------------------|----------------|
| Profit on ordinary activities before taxation | <u>2,399,850</u> | <u>689,634</u> |
| Corporation tax at 30% (2003: 30%) | 719,955 | 206,890 |
| <i>Adjusted for:</i> | | |
| Disallowed expenses and non-taxable income | (109,854) | (166) |
| Depreciation in excess of capital allowances | 1,152 | 15,526 |
| Other timing differences | (32,090) | (425) |
| Profit on sale of investments | 45,255 | - |
| Under/(over) provision for prior year | 26,794 | 2,693 |
| | <u>651,212</u> | <u>224,518</u> |
| Tax charge for the year | <u>651,212</u> | <u>224,518</u> |

There is an unrecognised deferred tax asset of £35,989 arising from timing differences on accelerated capital allowances and general provisions.

| 7. DIVIDENDS | £ | £ |
|---|----------------|----------------|
| Interim dividend paid of 25p per share (2003: 35p) | 253,000 | 347,900 |
| Final dividend payable of nil per share (2003: 10p) | - | 104,200 |
| | <u>253,000</u> | <u>452,100</u> |
| Total dividends for the year | <u>253,000</u> | <u>452,100</u> |

8. FIXED ASSETS

| <i>Group and Company</i> | Intangible Fixed Assets £ | Fixtures & Fittings £ |
|--------------------------------|---------------------------------|--------------------------|
| <i>Cost:</i> | | |
| At 1 st April 2003 | 150,000 | 249,336 |
| Additions | - | 26,764 |
| Disposals | - | (189) |
| | <u>150,000</u> | <u>275,911</u> |
| At 31 st March 2004 | <u>150,000</u> | <u>275,911</u> |
| <i>Depreciation:</i> | | |
| At 1 st April 2003 | 104,167 | 211,549 |
| Provided during the year | 45,833 | 26,775 |
| On disposals | - | (189) |
| | <u>150,000</u> | <u>238,135</u> |
| At 31 st March 2004 | <u>150,000</u> | <u>238,135</u> |
| <i>Net book value:</i> | | |
| At 31 st March 2004 | <u>0</u> | <u>37,776</u> |
| At 31 st March 2003 | <u>45,833</u> | <u>37,787</u> |

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31st MARCH 2004

9. INVESTMENTS

| <i>Group</i> | <u>Listed</u> £ | <u>Other</u> <u>Unlisted</u> £ | <u>Total</u> £ |
|---|--------------------|--------------------------------------|-------------------|
| Cost: | | | |
| Net Book Value at 1 st April 2003 | 4,979,178 | 1,849,671 | 6,828,849 |
| Additions | 2,066,338 | 700,000 | 2,766,338 |
| Disposals | (5,306,847) | (5) | (5,306,852) |
| Reclassification | 249,570 | (249,570) | - |
| Net Book Value at 31 st March 2004 | <u>1,988,239</u> | <u>2,300,096</u> | <u>4,288,335</u> |

| <i>Company</i> | <u>Listed</u> £ | <u>Unlisted</u> <u>Subsidiary</u> <u>Undertakings</u> £ | <u>Other</u> <u>Unlisted</u> £ | <u>Total</u> £ |
|---|--------------------|--|--------------------------------------|-------------------|
| Cost: | | | | |
| Net Book Value at 1 st April 2003 | 4,979,178 | 200 | 1,849,570 | 6,828,948 |
| Additions | 2,066,338 | - | 700,000 | 2,766,338 |
| Disposals | (5,306,847) | (5) | - | (5,306,852) |
| Reclassifications | 249,570 | (95) | (249,475) | - |
| Net Book Value at 31 st March 2004 | <u>1,988,239</u> | <u>100</u> | <u>2,300,095</u> | <u>4,288,435</u> |

The market value of the listed investments at 31st March 2004 was £2,857,054 (2003 - £4,779,268); if they had been sold at this value there would have been a liability to tax of £207,415 (2003 - £nil). The listed investments include 22,500 shares in Herald Worldwide Fund which are linked to bonuses granted to certain employees.

The "Other Unlisted" category includes preference shares in HIML Jersey Limited, a company with a similar group of shareholders but one which is not part of the HIML Group. This Company is the vehicle via which the HIML shareholders invest in the Herald Ventures Limited Partnerships Venture Fund. The investment shown in this category represents £1,900,000 of the £2,000,000 participation by HIML Jersey in the Venture Fund and also a loan to buy shares in the Herald Worldwide Fund.

Post Balance Sheet Event – On 2nd April 2004, HIML entered into a Sub-underwriting agreement whereby it has agreed to subscribe for up to 12,500,000 ordinary shares in The Generics Group AG at a price of 8p each, a total potential cost of £1,000,000, pursuant to a 1 for 1 Rights Issue.

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31st MARCH 2004**

9. INVESTMENTS cont'd.

Details of the investments in which the Group and the Company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

| <u>Name of Company</u> | <u>Holding</u> | <u>Proportion of voting rights and shares held</u> | <u>Nature of Business</u> |
|---------------------------------|-----------------|--|--|
| Subsidiary Undertakings: | | | |
| Herald GP Limited | Ordinary Shares | 100% | Limited Partnership General Partner |
| Associate Undertakings: | | | |
| Herald Jersey Ventures Limited | Ordinary Shares | 47.5% | Carried interest vehicle |

| | <u>2004</u> £ | <u>2004</u> £ | <u>2003</u> £ | <u>2003</u> £ |
|-----------------------------------|------------------|------------------|------------------|------------------|
| 10. DEBTORS | Group | Company | Group | Company |
| Trade debtors | 297,016 | 297,016 | 142,655 | 142,655 |
| Prepayments and accrued income | 110,448 | 110,448 | 145,785 | 145,785 |
| Called up share capital not paid | 620,500 | 620,500 | 816,000 | 816,000 |
| Amounts owed by related companies | 55,836 | 56,388 | 32,097 | 59,240 |
| Other debtors | 1,210 | 893 | 4,390 | 4,226 |
| | <u>1,085,010</u> | <u>1,085,245</u> | <u>1,140,927</u> | <u>1,167,906</u> |

Debtors falling due after more than one year included above are:

| | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|
| Called up share capital not paid | <u>620,500</u> | <u>620,500</u> | <u>816,000</u> | <u>816,000</u> |
|----------------------------------|----------------|----------------|----------------|----------------|

| 11. CREDITORS: Amounts falling due within one year | <u>2004</u> £ | <u>2004</u> £ | <u>2003</u> £ | <u>2003</u> £ |
|---|------------------|------------------|------------------|------------------|
| | Group | Company | Group | Company |
| Trade creditors | 15,981 | 15,987 | 67,701 | 67,701 |
| Corporation tax payable | 313,887 | 313,887 | 78,821 | 78,821 |
| Other taxes and social security costs | 79,266 | 79,266 | 45,390 | 45,390 |
| Dividends payable | - | - | 104,200 | 104,200 |
| Accruals and deferred income | 217,927 | 217,927 | 444,714 | 444,714 |
| | <u>627,061</u> | <u>627,067</u> | <u>740,826</u> | <u>740,826</u> |

12. SHARE CAPITAL

| <i>Authorised:</i> | <u>2004</u> £ | <u>2003</u> £ |
|---|------------------|------------------|
| 10,000,000 ordinary shares of 0.1p each | 10,000 | 10,000 |
| 15,000 8% cumulative redeemable preference shares | 15,000 | 15,000 |
| 5,000,000 deferred shares of 0.1p each | 5,000 | 5,000 |
| | <u>30,000</u> | <u>30,000</u> |

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31st MARCH 2004**

12. SHARE CAPITAL cont'd.

| <i>Allotted and called up:</i> | <u>2004</u> £ | <u>2003</u> £ |
|--|------------------|------------------|
| 972,000 (2003: 994,000) ordinary shares of 0.1p each, fully paid | 972 | 994 |
| 40,000 (2003: 48,000) ordinary shares of 0.1p each, nil paid | 40 | 48 |
| | <u>1,012</u> | <u>1,042</u> |

The weighted average number of Ordinary shares in issue during the year was 1,028,872 (2003: 1,041,079).

The holders of the preference shares are entitled to be paid out of the profits of the company available for dividend at the rate of 8% per annum in priority to payments to holders of ordinary and deferred shares. They have no voting rights in general meetings. On liquidation, preference shareholders receive priority on assets available for distribution to the extent of any capital paid up on such shares.

The deferred shares have no rights to dividends or votes in general meetings of the company. On liquidation the holders of deferred shares shall be entitled to the amount paid up, but only after holders of Ordinary shares have received £1,000,000 per share.

The nil paid Ordinary shares have full voting rights and are entitled to dividends declared for the financial year 2003/4 and thereafter. The following nil paid shares have been issued:

| <u>No of shares</u> | <u>Call price</u> | <u>Call date</u> |
|---------------------|-------------------|---------------------------------|
| 20,000 | £17.00 | 9 th April 2007 |
| 3,000 | £17.00 | 9 th April 2007 |
| <u>17,000</u> | <u>£13.50</u> | <u>5th June 2008</u> |
| <u>40,000</u> | | |

13. RESERVES

| <i>Group & Company</i> | <u>Share Capital £</u> | <u>Capital Redemption Reserve £</u> | <u>Share Premium Account £</u> |
|--|--------------------------------|--|--|
| Balance at 1 st April 2003 | 1,042 | 15,006 | 815,952 |
| Issue of nil paid shares | 17 | - | 229,483 |
| Repurchase of fully paid shares | (47) | 47 | (425,000) |
| Balance at 31 st March 2004 | <u>1,012</u> | <u>15,053</u> | <u>620,435</u> |
| | | <u>Group Profit and Loss Account £</u> | <u>Company Profit and Loss Account £</u> |
| Balance at 1 st April 2003 | | 6,947,790 | 6,961,275 |
| Retained profit for the year | | 1,495,638 | 1,495,481 |
| Repurchase of fully paid shares | | (298,490) | (298,490) |
| Minority Interest | | 13,328 | - |
| Balance at 31 st March 2004 | | <u>8,158,266</u> | <u>8,158,266</u> |

HERALD INVESTMENT MANAGEMENT LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH 2004

| 14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS | <u>2004</u> | <u>2003</u> |
|--|------------------|------------------|
| | <u>£</u> | <u>£</u> |
| Profit for the financial year | 1,748,638 | 465,116 |
| Minority interest | - | 3,178 |
| Dividend | (253,000) | (452,100) |
| Retained profit for the year | <u>1,495,638</u> | <u>16,194</u> |
| Issue of shares | 229,500 | 816,000 |
| Repurchase of shares | (723,490) | (102,510) |
| Removal of Minority Interest on part sale of subsidiary | 13,328 | - |
| Opening shareholders' funds | 7,779,790 | 7,050,106 |
| Closing shareholders' funds | <u>8,794,766</u> | <u>7,779,790</u> |

| 15. NOTES TO THE STATEMENT OF GROUP CASH FLOWS | <u>2004</u> | <u>2003</u> |
|--|------------------|----------------|
| (a) Reconciliation of operating profit to net cash inflow from operating activities | <u>£</u> | <u>£</u> |
| Operating profit | 1,815,527 | 480,710 |
| Depreciation charges | 72,419 | 100,340 |
| (Increase)/decrease in debtors | (149,110) | 67,557 |
| (Decrease)/increase in creditors | (244,624) | 59,808 |
| Net cash inflow from operating activities | <u>1,494,212</u> | <u>708,415</u> |
| (b) Analysis of changes in net cash in hand and at bank | <u>£</u> | <u>£</u> |
| At 1 st April 2003 | 453,735 | 1,671,751 |
| Cashflows | 3,556,971 | (1,218,016) |
| At 31 st March 2004 | <u>4,010,706</u> | <u>453,735</u> |

16. FINANCIAL COMMITMENTS

At 31st March 2004, the Company had annual commitments under two non-cancellable operating leases, which expire:

| | <u>Land and buildings</u> | |
|----------------------------|---------------------------|-----------------|
| | <u>2004</u> | <u>2003</u> |
| Between one and five years | <u>£134,850</u> | <u>£134,850</u> |

17. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemptions in FRS 8 from disclosing related party transactions with other group companies.

Loans to HIML Jersey Limited, a related company, are disclosed in note 10. Amounts outstanding from HIML Jersey Limited, Herald GP Limited and Herald Jersey Ventures Limited are disclosed as amounts owed by related companies.