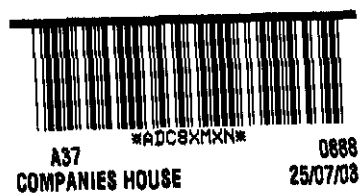


**REGISTER
OF COMPANIES**

THE WALES INNOVATION FUND LIMITED

Report and Financial Statements

31 March 2003



**Deloitte & Touche
Cardiff**

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

John Bowen
David William Reid Shalliday
Dr Graham Michael Thelwall Jones (appointed 3 October 2002)

SECRETARY

N L Ingham

REGISTERED OFFICE

Oakleigh House
Park Place
Cardiff
CF10 3DQ

BANKERS

National Westminster Bank Plc
96 Queen Street
Cardiff
CF10 1TX

PRINCIPAL SOLICITORS

Morgan Cole
Bradley Court
Park Place
Cardiff
CF10 3DP

AUDITORS

Deloitte & Touche
Cardiff

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2003.

ACTIVITIES

The principal activity of the company in the year under review was that of a venture capitalist.

BUSINESS REVIEW

The Wales Innovation Fund is a joint venture between NatWest Bank and Finance Wales Plc. It makes equity and loan investments in innovative, technology-based Welsh businesses in the range of £125,000 to £500,000.

The trading results for the year are shown in the profit and loss account on page 5.

DIRECTORS

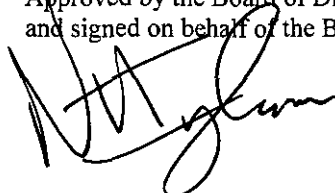
The current membership of the Board is set out on page 1. The directors served throughout the year unless stated otherwise. W Legge-Bourke resigned as a director on 31 August 2002.

The directors holding office at 31 March 2003 did not hold any beneficial interests in the issued share capital of the company at any time during the year.

AUDITORS

On 1 August 2003 Deloitte & Touche will transfer their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP will be the auditor of the company for the forthcoming financial year under the provisions of section 386(2) of the Companies Act 1985.

Approved by the Board of Directors
and signed on behalf of the Board



N L Ingham

Secretary

Date 9 July 2003

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year 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;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
THE WALES INNOVATION FUND LIMITED**

We have audited the financial statements of The Wales Innovation Fund Limited for the year ended 31 March 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. These financial statements have been prepared under 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 United Kingdom legal and regulatory requirements and 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 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 company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

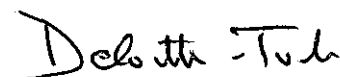
Basis of audit opinion

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 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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Cardiff

Date 17 July 2003

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2003

	Note	Year ended 31 March 2003 £	Fifteen months ended 31 March 2002 £
Income	1	140,135	81,210
Administrative expenses		(277,581)	(268,163)
Other operating income		-	369,000
OPERATING (LOSS)/PROFIT	2	(137,446)	182,047
Amounts written off fixed asset investments	6	(1,817,713)	(1,261,000)
Interest payable	3	(301,536)	(199,928)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,256,695)	(1,278,881)
Tax on loss on ordinary activities	4	-	-
LOSS FOR THE FINANCIAL PERIOD		(2,256,695)	(1,278,881)
Profit and loss account brought forward		(1,607,721)	(328,840)
Profit and loss account carried forward		(3,864,416)	(1,607,721)

All activities derive from continuing operations.

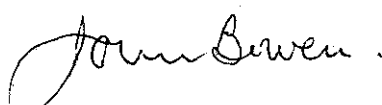
There are no recognised gains and losses or movements in shareholders' deficit for the current year or prior period other than as stated above.

BALANCE SHEET
31 March 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Investments	6	<u>1,568,810</u>	<u>2,444,000</u>
CURRENT ASSETS			
Debtors – due within one year	7	23,448	8,129
Cash at bank and in hand		<u>20,551</u>	<u>209,739</u>
		43,999	217,868
CREDITORS: amounts falling due within one year	8	<u>(558,995)</u>	<u>(459,436)</u>
NET CURRENT LIABILITIES		<u>(514,996)</u>	<u>(241,568)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,053,814	2,202,432
CREDITORS: amounts falling due after more than one year	9	<u>(4,918,030)</u>	<u>(3,809,953)</u>
NET LIABILITIES		<u>(3,864,216)</u>	<u>(1,607,521)</u>
CAPITAL AND RESERVES			
Called up share capital	10	200	200
Profit and loss account		<u>(3,864,416)</u>	<u>(1,607,721)</u>
TOTAL EQUITY SHAREHOLDERS' DEFICIT	11	<u>(3,864,216)</u>	<u>(1,607,521)</u>

These financial statements were approved by the Board of Directors on 9 July 2003.

Signed on behalf of the Board of Directors


J Bowen Director

NOTES TO THE ACCOUNTS**Year ended 31 March 2003****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996), the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

Investments

Investments in unquoted companies are treated as fixed assets and stated in the balance sheet at directors' valuation in accordance with the British Venture Capital Association guidelines for the valuation of venture capital investments. In determining this value, the directors give consideration to the period of investment, the performance of the investment against plan, comparative listed companies' earnings multiples suitably discounted and any recent transactions.

Although the company may hold more than 20% of the equity of certain companies, the directors consider that, in view of the current investment objectives of the company, it would not be appropriate to treat these holdings as investments in associated undertakings.

Grants

Non repayable grants are credited to the profit and loss account once they have been invested in qualifying investments.

Income

Income comprises the value of asset management and advisory fees and commissions received net of value added tax and loan interest receivable.

Group support

The ultimate parent company, the WDA, has confirmed that it will support the group in the foreseeable future and therefore the directors believe it is appropriate to prepare the accounts on a going concern basis.

2. OPERATING (LOSS)/PROFIT

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

	Year ended 31 March 2003 £	Fifteen months ended 31 March 2002 £
Release of ERDF grant	-	(369,000)
Auditors' remuneration – audit	5,000	4,375
	<u>5,000</u>	<u>4,375</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2003

3. INTEREST PAYABLE

	Year ended 31 March 2003 £	Fifteen months ended 31 March 2002 £
NatWest investment loan	191,578	121,013
Finance Wales loan	109,958	78,915
	<u>301,536</u>	<u>199,928</u>

4. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no taxation charge due to the losses made in the period.

The standard rate of tax for the period, based on the UK standard rate of corporation tax, is 30%. The actual tax charge of the current and the previous period differs from the standard rate for the reasons set out in the following reconciliation:

	£	£
Loss on ordinary activities before tax	<u>(2,256,695)</u>	<u>(1,278,881)</u>
Tax on loss on ordinary activities before tax at 30%	677,009	383,664
Factors affecting charge for the period		
Expenses not deductible for tax purposes	-	(378,300)
Timing differences not recognised	(255,785)	(116,064)
Grant income offset against investments	-	110,700
Amounts written off investments	<u>(421,224)</u>	<u>-</u>
	<u>-</u>	<u>-</u>

A deferred tax asset has not been recognised in respect of timing differences relating to non-trade financial losses of £109,442 and excess management expenses of £329,780. The asset would be recovered if there were sufficient suitable future profits to absorb all such assets.

NOTES TO THE ACCOUNTS
Year ended 31 March 2003**5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

The average number of persons employed during the period (including directors) was nil (2002 – 3).

	Year ended 31 March 2003 £	Fifteen months ended 31 March 2002 £
Directors' remuneration	17,313	24,087

The aggregate payroll costs of these persons (including directors) were as follows:

	2003 £	2002 £
Wages and salaries	15,945	153,125
Social security costs	1,368	6,689
Other pension costs	-	8,345
	<u>17,313</u>	<u>168,159</u>

6. FIXED ASSET INVESTMENTS

	Investments £
Cost	
At 1 April 2002	3,980,000
Additions	942,523
At 31 March 2003	<u>4,922,523</u>
Impairment	
At 1 April 2002	1,536,000
Charge for the period	1,817,713
At 31 March 2003	<u>3,353,713</u>
Net book value	
At 31 March 2003	<u>1,568,810</u>
At 31 March 2002	<u>2,444,000</u>

These are equity investments in limited companies. The directors consider the market value of the investments is not less than the net book value shown above.

NOTES TO THE ACCOUNTS
Year ended 31 March 2003

6. FIXED ASSET INVESTMENTS (continued)

20% or more of the share capital is held in the following investments:

Company	Country of origin	Portion of ordinary shares held %	Period	Profit/(loss) for period £	Share capital and reserves at period end £
Valuestays Limited	UK	25.78	Year ended 31 December 2002	(67,448)	(248,974)
Vector Limited	UK	20	In liquidation		
Kanda Limited	UK	29.55	In liquidation		
ITT Limited	UK	45.01	Year ended 30 June 2002	(108,746)	50,752
Medical Gas Services Holdings Limited	UK	25	Year ended 31 December 2002	(87,673)	(8,488)
The Ascent Group Limited	UK	20	Year ended 31 December 2002	(45,745)	620,919
Web 2B	UK	25	Year ended 31 May 2002	(97,266)	124,785
MDA	UK	25	Year ended 30 November 2002	(184,114)	(129,565)
CDSM	UK	25	Year ended 31 December 2002	22,049	(43,620)

7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Trade debtors	9,342	8,029
Other debtors	14,006	-
Unpaid share capital	100	100
	<u>23,448</u>	<u>8,129</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2003

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Trade creditors	9,587	2,118
Social security and other taxes	-	3,369
Accrued expenses	5,000	1,375
Amounts owing to group companies	20,802	42,004
Accrued interest	523,606	222,070
ERDF grant repayable	-	188,500
	<u>558,995</u>	<u>459,436</u>

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003 £	2002 £
Finance Wales investment – 7.5% loan stock	1,604,840	1,215,500
WDA operational budget loan (see note 13)	566,180	371,453
NatWest Bank investment – 7.5% loan stock	2,747,010	2,223,000
	<u>4,918,030</u>	<u>3,809,953</u>

The above loan stock is unsecured and due for repayment on 31 December 2008.

10. SHARE CAPITAL

The authorised and called up share capital of the company at 31 March 2003 is as follows:

Number	Class	Nominal Value £	£
100	Ordinary 'A' shares	1	100
100	Ordinary 'B' shares	1	100
			<u>200</u>

The rights attaching to the holders of the ordinary 'A' shares and ordinary 'B' shares entitle the holders to receive 40% and 60% respectively of the profits available for distribution, and on a return of capital 40% and 60% respectively of surplus assets after payment of all liabilities.

£100 of share capital remains unpaid at 31 March 2003 (2002 - £100).

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2003 £	2002 £
Loss for the financial period	(2,256,695)	(1,278,881)
Net reduction in shareholders' deficit	(2,256,695)	(1,278,881)
Opening shareholders' deficit	(1,607,521)	(328,640)
Closing shareholders' deficit	<u>(3,864,216)</u>	<u>(1,607,521)</u>

NOTES TO THE ACCOUNTS

Year ended 31 March 2003

12. PENSION COMMITMENTS

The company makes contributions to personal pension schemes of certain employees. The pension cost charge for the period was £nil (2002 - £8,345). No amount was prepaid or outstanding at the period-end.

13. RELATED PARTY TRANSACTIONS

The company has an unsecured, interest-free loan from The Welsh Development Agency, the parent undertaking of Finance Wales Plc, which owns 50% of the issued share capital of the company, of £566,180 (2002 - £371,453), the whole of which remained outstanding at the period-end. The loan was made to cover management costs and has no fixed repayment term.

The Welsh Development Agency is committed to providing support for the running costs of The Wales Innovation Fund Limited. Under the terms of the loan agreement, The Welsh Development Agency is entitled to seek repayment when the company has sufficient funds available, which is not expected to occur in the next 12 months.

At 31 March 2003, the company also had unsecured loan stock owing to Finance Wales Plc and NatWest Bank Plc, which owns 50% of the issued share capital of the company, as detailed in note 9.

14. ULTIMATE CONTROLLING PARTY

The company is a joint venture between The Welsh Development Agency and NatWest Bank Plc, each of which owns 50% of the issued share capital of the company.