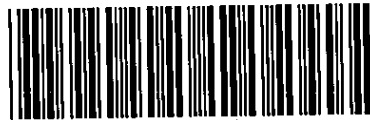


**THE WALES INNOVATION FUND
LIMITED**

Report and Financial Statements

31 March 2007

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REPORT AND FINANCIAL STATEMENTS 2007

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Lloyd-Jones (appointed 31 October 2006)
S M Burder

SECRETARY

M J Davies

REGISTERED OFFICE

Oakleigh House
Park Place
Cardiff
CF10 3DQ

BANKERS

National Westminster Bank plc
96 Queen Street
Cardiff
CF10 1TX

SOLICITORS

Morgan Cole
Bradley Court
Park Place
Cardiff
CF10 3DP

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Cardiff

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2007

The directors' report has been prepared in accordance with the special provisions relating to small companies under section 246 (4) of the Companies Act 1985

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

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

The Wales Innovation Fund is a joint venture between National Westminster Bank plc and Finance Wales plc. It makes equity and loan investments in innovative, technology-based Welsh businesses in the range of £10,000 to £1,000,000

The Joint Venture Agreement between Finance Wales plc and National Westminster Bank plc was amended on 21st December 2006, which had the effect of removing the requirement to pay accrued interest on the National Westminster Bank plc loan, which has been released to the profit and loss account as an exceptional item reported after operating profit as shown in the profit and loss account on page 5 and in note 3 to the financial statements

This agreement also provides that any profit on realisations arising from the fund will be shared on an equal basis between the parties

The trading results for the financial year are shown in the profit and loss account on page 5. There were no new investments during the year

DIRECTORS AND THEIR INTERESTS

The current directors of the company, who served throughout the financial year, are as set out on page 1

The directors held no beneficial interests in the issued share capital of the company or any other company in the Finance Wales plc group at the beginning or the end of the financial year

AUDITORS

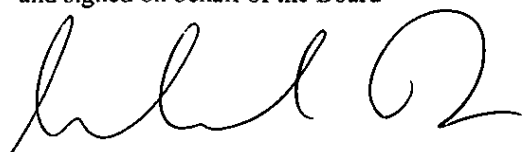
In the case of each of the persons who are directors of the company at the date when this report is approved

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have indicated their willingness to continue in office as the company's auditors and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting

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



MJ Davies

Secretary

Date 25 July 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- (a) select suitable accounting policies and then apply them consistently,
- (b) make judgements and estimates that are reasonable and prudent,
- (c) state whether applicable United Kingdom accounting standards have been followed, and
- (d) 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 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 2007 which comprise the profit and loss account, the balance sheet and the related notes 1 to 12. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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

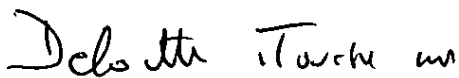
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cardiff, United Kingdom

Date *30 July 2007*

THE WALES INNOVATION FUND LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 March 2007

| | Note | 2007 £ | 2006 £ |
|-----------------------------------------------------------------|------|-----------|-----------|
| TURNOVER | 1 | 11,985 | 56,289 |
| Amounts written off fixed asset investments | | 19,334 | (153,413) |
| Other administrative expenses | | (17,474) | (136,087) |
| Total administrative expenses | | 1,860 | (289,500) |
| OPERATING PROFIT/(LOSS) | 2 | 13,845 | (233,211) |
| Exceptional item | 3 | 1,100,703 | - |
| Interest payable | 4 | - | (275,143) |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | 1,114,548 | (508,354) |
| Tax on profit/(loss) on ordinary activities | 6 | - | - |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | 11 | 1,114,548 | (508,354) |

All activities derive from continuing operations

There have been no recognised gains and losses for the current or the prior financial year other than as stated in the profit and loss account and, accordingly, no separate statement of total recognised gains and losses is presented

THE WALES INNOVATION FUND LIMITED

BALANCE SHEET 31 March 2007

| | Note | 2007 £ | 2006 £ |
|----------------------------------------------------------------|------|-------------|-------------|
| FIXED ASSETS | | | |
| Investments | 6 | 521,113 | 598,448 |
| CURRENT ASSETS | | | |
| Cash at bank and in hand | | 56,513 | 209,802 |
| CREDITORS: amounts falling due within one year | 7 | (5,553) | (1,104,876) |
| NET CURRENT ASSETS/(LIABILITIES) | | 50,960 | (895,074) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 572,073 | (296,626) |
| CREDITORS: amounts falling due after more than one year | 8 | (4,892,182) | (5,138,031) |
| NET LIABILITIES | | (4,320,109) | (5,434,657) |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 9 | 200 | 200 |
| Profit and loss account | 10 | (4,320,309) | (5,434,857) |
| TOTAL SHAREHOLDERS' DEFICIT | 10 | (4,320,109) | (5,434,657) |

These financial statements were approved by the Board of Directors on 25 July 2007
Signed on behalf of the Board of Directors



S Lloyd-Jones - Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted, which have been applied consistently throughout the current and the prior financial year, are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

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

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 cost less any provision for impairment in accordance with the British Venture Capital Association guidelines for the valuation of venture capital investments.

Accounts in difficulty are specifically provided and a general provision is made on all other accounts.

Investments held as current assets are valued at the lower of cost and net realisable value.

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.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

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

2. OPERATING PROFIT/(LOSS)

| | 2007 £ | 2006 £ |
|------------------------------------------------------|--------------|--------------|
| The operating profit/(loss) is stated after charging | | |
| Auditors' remuneration – audit services | 3,200 | 3,100 |
| – non-audit services | - | - |
| | <u>3,200</u> | <u>3,100</u> |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

3. EXCEPTIONAL ITEM REPORTED AFTER OPERATING PROFIT

The requirement to pay £1,100,703 interest accrued in the prior year on the National Westminster plc investment loan, was removed under the amended joint-venture agreement between Finance Wales plc and National Westminster Bank plc dated 21st December 2006 and is released to the profit and loss account in the current year as an exceptional item reported after operating profit

4. INTEREST PAYABLE

| | 2007 £ | 2006 £ |
|---------------|-----------|-----------|
| Loan interest | - | (275,143) |

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors were the only employees of the company during the current and the prior financial year

The aggregate payroll costs of the above are as follows

| | 2007 £ | 2006 £ |
|-------------------------|--------------|---------------|
| Directors' remuneration | 7,633 | 10,905 |
| Social security costs | 269 | 1,199 |
| | <u>7,902</u> | <u>12,104</u> |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

5. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

| | 2007 £ | 2006 £ |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Current taxation | | |
| United Kingdom corporation tax | | |
| Current tax on income for the year at 30% (2006- 30%) | - | - |
| | <u>-</u> | <u>-</u> |
| The difference between the tax charge described above and the amount calculated by applying the standard rate of UK corporation tax to the profit/(loss) before tax is as follows | | |
| | £ | £ |
| Profit/(loss) on ordinary activities before tax | 1,114,548 | (508,354) |
| | <u>1,114,548</u> | <u>(508,354)</u> |
| Tax on profit/(loss) on ordinary activities before tax at 30% (2006- 30%) | (334,364) | 152,507 |
| | <u>(334,364)</u> | <u>152,507</u> |
| Factors affecting charge for the year | | |
| Tax losses not recognised | 328,564 | (106,483) |
| Expenses not deductible for tax purposes | 5,800 | (46,024) |
| | <u>334,364</u> | <u>(152,507)</u> |
| Current tax charge for the year | - | - |
| | <u>-</u> | <u>-</u> |

The tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%. The tax charge in future periods may be affected by the expected reduction in the main rate of corporation tax from 30% to 28%.

A deferred tax asset has not been recognised in respect of timing differences relating to non-trade financial losses of £535,284 (2006 - £548,753), capital losses of £82,500 (2006 - £82,500) and excess management expenses of £nil (2006 - £315,095). The asset would be recovered if there were sufficient future profits to absorb such assets.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

6 FIXED ASSET INVESTMENTS

| | Investments £ |
|-----------------------|------------------|
| Cost | |
| At 1 April 2006 | 2,221,125 |
| Repayments | (96,669) |
| | <hr/> |
| At 31 March 2007 | 2,124,456 |
| | <hr/> |
| Impairment | |
| At 1 April 2006 | 1,622,677 |
| Charge for the year | (19,334) |
| | <hr/> |
| At 31 March 2007 | 1,603,343 |
| | <hr/> |
| Net book value | |
| At 31 March 2007 | 521,113 |
| | <hr/> |
| At 31 March 2006 | 598,448 |
| | <hr/> |

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

20% or more of the share capital is held in the following investments, all of which are registered in England and Wales

| Company | Country of Origin | Nominal Value of Ordinary Shares £ | Portion of Ordinary Share Held % | Nominal Value of Preference Shares £ | Portion of Preference Shares Held % | Profit / (Loss) for the period £ | Share Capital and reserves at year end £ |
|---------------------------------------|-------------------------|---------------------------------------------------|----------------------------------------------|-----------------------------------------------------|-------------------------------------------------|-------------------------------------------|------------------------------------------------------------|
| The Ascent Group Limited | UK | 1 00 | 20 | 1 00 | 100 | (257,500) | 91,360 |
| Year ended 31 Dec 2005 | | | | | | | |
| CDSM Limited | UK | 1 00 | 25 | N/A | N/A | 42,575 | (7,217) |
| Year ended 31 Dec 2005 | | | | | | | |
| Sinetica Corporation Limited | UK | 1 00 | 25 | 1 00 | 100 | 179,085 | 63,478 |
| Year ended 31 Dec 2005 | | | | | | | |
| Monitor Risk Management Limited | UK | 1 00 | 24 | N/A | N/A | (76,000) | (58,000) |
| Year ended 30 Jun 2005 | | | | | | | |

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2007

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2007 £ | 2006 £ |
|---------------------------------------------------|--------------|------------------|
| Trade creditors | 2,317 | 764 |
| Other creditors including tax and social security | 44 | 309 |
| Accruals and deferred income | 3,192 | 3,100 |
| Accrued interest | - | 1,100,703 |
| | <u>5,553</u> | <u>1,104,876</u> |

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

| | 2007 £ | 2006 £ |
|-------------------------------------------------------|------------------|------------------|
| Finance Wales plc investment – 0% loan stock | 1,668,840 | 1,668,840 |
| National Westminster plc investment – 7.5% loan stock | 2,720,086 | 2,843,010 |
| Amounts owed to Finance Wales plc (see note 11) | <u>503,256</u> | <u>626,181</u> |
| | <u>4,892,182</u> | <u>5,138,031</u> |

The above loan stock is unsecured and has no fixed repayment terms, being due for repayment on the early of the realisation of, or exit from, the last remaining investment of the company or on the date of commencement of the company's winding up

Amounts owed to Finance Wales plc relate to an operational loan made to The Wales Innovation Fund Limited to cover management costs, which is unsecured and interest free and has no fixed repayment terms. Repayment will not be demanded prior to 1 April 2008

9. CALLED UP SHARE CAPITAL

The authorised and called up share capital of the company at 31 March 2007 and 31 March 2006 is as follows

| Number | Class | Nominal value £ | 2007 £ | 2006 £ |
|--------|---------------------|--------------------|------------|------------|
| 100 | Ordinary 'A' shares | 1 | 100 | 100 |
| 100 | Ordinary 'B' shares | 1 | 100 | 100 |
| | | | <u>200</u> | <u>200</u> |

The rights attaching to the holders of the ordinary 'A' shares and ordinary 'B' shares entitle the holders to receive 50% (2006 – 40%) each of the profits available for distribution, subject to board approval, and, on a return of capital, 50% (2006 – 40%) each of surplus assets after payment of all liabilities

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2007

10. STATEMENT OF MOVEMENTS ON RESERVES AND RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

| | Share capital £ | Profit and loss account £ | 2007 Total £ | 2006 Total £ |
|--------------------------------------|-----------------------|---------------------------------|--------------------|--------------------|
| Balance at beginning of the year | 200 | (5,434,857) | (5,434,657) | (4,926,303) |
| Profit/(loss) for the financial year | - | 1,114,548 | 1,114,548 | (508,354) |
| Balance at end of the year | 200 | (4,320,309) | (4,320,109) | (5,434,657) |

11. RELATED PARTY TRANSACTIONS

The company has an unsecured, interest-free loan from Finance Wales plc, of £503,256 (2006 - £626,181). A repayment of £122,925 was made in the year. The loan was made to cover management costs and has no fixed repayment terms.

At 31 March 2007, the company also had unsecured loan stock owing to Finance Wales plc and National Westminster Bank plc (which each own 50% of the issued share capital of the company), as detailed in note 9.

12. ULTIMATE CONTROLLING PARTIES

The company is a joint venture between Finance Wales plc and National Westminster Bank plc, each of which owns 50% of the issued share capital of the company.

On 1 April 2006, the Welsh Development Agency was merged with the Welsh Assembly Government. Finance Wales plc now regards the Welsh Assembly Government as the relevant party to this venture.