

**THE WALES INNOVATION FUND
LIMITED**

Report and Financial Statements

31 March 2013



THE WALES INNOVATION FUND LIMITED

REPORT AND FINANCIAL STATEMENTS 2013

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THE WALES INNOVATION FUND LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

S Lloyd-Jones
C J Price

SECRETARY

J Oates

REGISTERED OFFICE

Oakleigh House
Park Place
Cardiff
CF10 3DQ

BANKERS

National Westminster Bank plc
96 Queen Street
Cardiff
CF10 1TX

AUDITOR

Deloitte LLP
Cardiff

THE WALES INNOVATION FUND LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2013

This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption

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 Royal Bank of Scotland 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 agreement 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 6. There were no new investments during the year. No dividends were paid or declared during either the current or the prior financial year.

GOING CONCERN

The current economic environment is challenging. The company provides financial services to SMEs and is working closely with management at investee companies to support and help them manage the effects of the current economic environment.

The company has net liabilities of £4,318,389 (2012 - £4,686,210), generated a profit of £367,821 (2012 – profit of £16,337) and is reliant on the support of its shareholder, Finance Wales plc, to be able to meet its liabilities as they fall due. Finance Wales plc has confirmed that it is committed to support, financially or otherwise, The Wales Innovation Fund Limited for a period of at least 12 months from the date of approval of the financial statements. The support is extended to assist The Wales Innovation Fund Limited to meet any liabilities as they fall due.

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government has indicated in a letter of support that it will continue to provide both revenue and capital support at a level sufficient to enable Finance Wales to continue as a going concern, until at least 30 September 2015.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance and the financial support of the Welsh Government, show that the group will be able to operate within the level of its current facility over the next 12 months from signing the audit report.

Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS

The directors of the company, who served throughout the financial year, are as shown on page 1.

DIRECTORS' REPORT (continued)

AUDITOR

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 of which the company's auditor is 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 and to establish that the company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

The company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte LLP will be its auditor for the forthcoming financial year under the provisions of section 386(2) of the Companies Act 2006

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



J Oates
Company Secretary

Date 30 July 2013

DIRECTORS' RESPONSIBILITIES STATEMENT

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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

INDEPENDENT AUDITOR'S 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 2013 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- the directors were not entitled to take advantage of the small companies exemption in preparing the directors' report.



Elanor Gill (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cardiff, United Kingdom

Date 30 July 2013

THE WALES INNOVATION FUND LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 March 2013

	Note	2013 £	2012 £
Administrative expenses			
Bad debts provided and amounts written off loan receivables		-	10,221
Amounts provided against fixed asset investments		10,023	12,000
Other administrative expenses		(5,567)	(5,788)
Total administrative expenses		4,456	16,433
Profit/(loss) on disposal of investment		363,365	(96)
OPERATING PROFIT	2	367,821	16,337
Tax on profit on ordinary activities	4	-	-
PROFIT FOR THE FINANCIAL YEAR	9	367,821	16,337

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. Accordingly, no separate statement of total recognised gains and losses is presented.

THE WALES INNOVATION FUND LIMITED

BALANCE SHEET

31 March 2013

	Note	2013 £	2012 £
FIXED ASSETS			
Investments	5	-	39,977
CURRENT ASSETS			
Cash at bank and in hand		21,435	23,637
CREDITORS: amounts falling due within one year	6	(3,642)	(3,642)
NET CURRENT ASSETS		17,793	19,995
TOTAL ASSETS LESS CURRENT LIABILITIES		17,793	59,972
CREDITORS: amounts falling due after more than one year	7	(4,336,182)	(4,746,182)
NET LIABILITIES		(4,318,389)	(4,686,210)
CAPITAL AND RESERVES			
Called up share capital	8	200	200
Profit and loss account	9	(4,318,589)	(4,686,410)
SHAREHOLDERS' DEFICIT	9	(4,318,389)	(4,686,210)

The financial statements of The Wales Innovation Fund Limited, registered number 3691842, were approved by the Board of Directors and authorised for issue on 30 July 2013

Signed on behalf of the Board of Directors



S Lloyd-Jones
Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2013

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.

Going concern

The current economic environment is challenging. The company provides financial services to SMEs and is working closely with management at investee companies to support and help them manage the effects of the current economic environment.

The company has net liabilities of £4,318,389 (2012 - £4,686,210), generated a profit of £367,821 (2012 – profit of £16,337) and is reliant on the support of its shareholder, Finance Wales plc, to be able to meet its liabilities as they fall due. Finance Wales plc has confirmed that it is committed to support, financially or otherwise, The Wales Innovation Fund Limited for a period of at least 12 months from the date of approval of the financial statements. The support is extended to assist The Wales Innovation Fund Limited to meet any liabilities as they fall due.

Finance Wales plc's ultimate parent, the Welsh Ministers, acting through the Welsh Government has indicated in a letter of support that it will continue to provide both revenue and capital support at a level sufficient to enable Finance Wales to continue as a going concern, until at least 30 September 2015.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance and the financial support of the Welsh Government, show that the group will be able to operate within the level of its current facility over the next 12 months from signing the audit report.

Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

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.

Accounts identified as being 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 and Finance Wales having no significant influence over the day-to-day operations of those companies, 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2013

1. ACCOUNTING POLICIES (continued)

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences residual interest in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs

2. OPERATING PROFIT

	2013	2012
	£	£
The operating profit is stated after charging		
Auditor's remuneration – audit services	3,358	3,642

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

Neither of the directors received any emoluments from the company in the current or the prior financial year. The directors' remuneration was paid by Finance Wales plc. It is not practicable to allocate their remuneration between their services as directors of this company and other group companies. Further details of directors' remuneration are presented in the financial statements of Finance Wales plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2013

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2013 £	2012 £
Current taxation		
United Kingdom corporation tax		
Current tax on income for the year at 24% (2012 - 26%)	<u> </u>	<u>-</u>
The difference between the current taxation shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows		
	£	£
Profit on ordinary activities before tax	<u>367,821</u>	<u>16,337</u>
		£
Tax at 24% (2012 - 26%) thereon	(88,277)	(4,248)
Factors affecting charge for the year		
Expenses not deductible for tax purposes	-	(25)
Income not taxable for tax purposes	89,614	3,120
Increase in tax losses	-	1,153
Utilisation of tax losses	29,676	-
Effect of Gains (incl Rollover relief)	<u>(31,013)</u>	<u>-</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

A deferred tax asset has not been recognised in respect of timing differences relating to non-trade financial losses of £376,385 (2012 - £423,740), excess management expenses of £6,538 (2012 - £5,508) and capital losses of £0 (2012 - £66,000). The asset would be recovered if there were sufficient future profits to absorb such assets.

The reduction in the mainstream corporation tax rate from 24% to 23% from 1 April 2013, to 22% from 1 April 2014 and further to 20% from 1 April 2015 is not anticipated to materially affect the future tax charge.

THE WALES INNOVATION FUND LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2013

5. FIXED ASSET INVESTMENTS

	Investments £
Cost	
At 1 April 2012	1,070,180
Disposals	(50,000)
At 31 March 2013	<u>1,020,180</u>
Impairment	
At 1 April 2012	1,030,203
Disposals	(10,023)
At 31 March 2013	<u>1,020,180</u>
Net book value	
At 31 March 2013	<u>-</u>
At 31 March 2012	<u>39,977</u>

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. No investment is classified as an associate.

The company has sold its investment in Sinetica Corporation Limited. A profit of £363,365 was recorded on disposal.

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £	2012 £
Accruals and deferred income	<u>3,642</u>	<u>3,642</u>

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

	2013 £	2012 £
Finance Wales plc investment – 0% loan stock	1,668,840	1,668,840
National Westminster plc investment – 0% loan stock	2,442,086	2,647,086
Amounts owed to Finance Wales plc (see note 10)	<u>225,256</u>	<u>430,256</u>
	<u>4,336,182</u>	<u>4,746,182</u>

The above loan stock is unsecured and has no fixed repayment terms, being due for repayment on the earlier 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2013

8. CALLED UP SHARE CAPITAL

The authorised and called up share capital of the company at 31 March 2013 and 31 March 2012 is as follows

Number	Class	Nominal value £	2013 £	2012 £
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% (2012 – 50%) each of the profits available for distribution, subject to Board approval and, on a return of capital, 50% (2012 – 50%) each of surplus assets after payment of all liabilities

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

	Share capital £	Profit and loss account £	Total 2013 £	Total 2012 £
Balance at beginning of the year	200	(4,686,410)	(4,686,210)	(4,702,547)
Profit for the financial year	-	367,821	367,821	16,337
Balance at end of the year	<u>200</u>	<u>(4,318,589)</u>	<u>(4,318,389)</u>	<u>(4,686,210)</u>

10. RELATED PARTY TRANSACTIONS

The company has an unsecured, interest-free loan from Finance Wales plc of £225,256 (2012 - £430,256) The loan was made to cover management costs and has no fixed repayment terms

At 31 March 2013, 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 7

11. 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

Finance Wales plc regards the Welsh Ministers, acting through the Welsh Government (formerly the Welsh Assembly Government), as the ultimate controlling party