

**THE WALES INNOVATION FUND  
LIMITED**

**Report and Financial Statements**

**31 March 2005**



# **THE WALES INNOVATION FUND LIMITED**

## **REPORT AND FINANCIAL STATEMENTS 2005**

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# **THE WALES INNOVATION FUND LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

J Bowen  
G Thelwall Jones  
M Burder (appointed 16 December 2004)

### **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

# THE WALES INNOVATION FUND LIMITED

## DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

## 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 financial year are shown in the profit and loss account on page 5.

## DIRECTORS AND THEIR INTERESTS

The current directors of the company, who served throughout the financial year unless stated otherwise, are as set out on page 1. D Shalliday resigned as a director on 16 December 2004.

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

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



M J Davies  
Company Secretary

5 July 2005

**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 2005 which comprise the profit and loss account, the balance sheet and the related notes 1 to 13. 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 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Cardiff

Date 6 July 2005

# THE WALES INNOVATION FUND LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 March 2005

	Note	2005 £	2004 £
<b>TURNOVER</b>	1	43,558	66,041
Amounts written off fixed asset investments		(183,122)	(364,899)
Other administrative expenses		(140,320)	(181,391)
Total administrative expenses		(323,442)	(546,290)
<b>OPERATING LOSS</b>		(279,884)	(480,249)
Interest payable	3	(254,943)	(47,011)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(534,827)	(527,260)
Tax on loss on ordinary activities	4	-	-
<b>LOSS FOR THE FINANCIAL YEAR</b>		(534,827)	(527,260)
<b>Profit and loss account brought forward</b>		(4,391,676)	(3,864,416)
<b>Profit and loss account carried forward</b>		(4,926,503)	(4,391,676)

All activities derive from continuing operations.

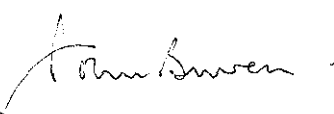
There have been no recognised gains and losses for the current or prior financial year other than as stated in the profit and loss account and, accordingly, no statement of total recognised gains and losses is presented.

# THE WALES INNOVATION FUND LIMITED

## BALANCE SHEET 31 March 2005

	Note	2005 £	2004 £
<b>FIXED ASSETS</b>			
Investments	6	963,805	1,281,119
<b>CURRENT ASSETS</b>			
Debtors – due within one year	7	2,215	8,783
Cash at bank and in hand		74,268	5,640
		76,483	14,423
<b>CREDITORS: amounts falling due within one year</b>	8	(828,560)	(578,988)
<b>NET CURRENT LIABILITIES</b>		(752,077)	(564,565)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		211,728	716,554
<b>CREDITORS: amounts falling due after more than one year</b>	9	(5,138,031)	(5,108,030)
		(4,926,303)	(4,391,476)
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	200	200
Profit and loss account		(4,926,503)	(4,391,676)
<b>TOTAL EQUITY SHAREHOLDERS' DEFICIT</b>	11	(4,926,303)	(4,391,476)

These financial statements were approved by the Board of Directors on 5 July 2005  
Signed on behalf of the Board of Directors

  
J Bowen

Director



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2005

### 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 financial year and the prior financial period, 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.

#### Deferred taxation

Deferred tax 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 is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset, or on unremitted earnings of subsidiaries and associates where there is no commitment to remit these earnings.

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.

#### Turnover

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

#### Comparatives

Certain comparatives have been reclassified in order to be consistent with the presentation in 2005. In particular, £364,899 in respect of provisions against fixed asset investments in 2004 has been reclassified to administrative expenses. There is no alteration in loss for the financial year or net liabilities as a result of this change.

### 2. OPERATING LOSS

	2005 £	2004 £
The operating loss is stated after charging		
Auditors' remuneration – audit	3,000	4,900

# THE WALES INNOVATION FUND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2005

### 3. INTEREST PAYABLE

	2005 £	2004 £
NatWest investment loan	254,943	249,267
Exceptional item – write-back of Finance Wales Plc loan interest	-	(202,256)
	<u>254,943</u>	<u>47,011</u>

### 4. TAX ON LOSS ON ORDINARY ACTIVITIES

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

The difference between the tax charge described above and the amount calculated by applying the standard rate of UK corporation tax of 30% (2004: 30%) to the loss before tax is as follows:

	2005 £	2004 £
Loss on ordinary activities before tax	(534,827)	(527,260)
Tax on loss on ordinary activities before tax at 30% (2004: 30%)	160,448	158,178
<b>Factors affecting charge for the year</b>		
Timing differences not recognised	(104,009)	(49,275)
Amounts written-off investments	-	(108,903)
Expenses not deductible for tax purposes	(56,439)	-
<b>Current tax charge for year</b>	<u>-</u>	<u>-</u>

A deferred tax asset has not been recognised in respect of timing differences relating to non-trade financial losses of £472,870 (2004 – £123,687), capital losses of £82,500 (2004 – £82,500) and excess management expenses of £284,495 (2004 – £240,720). The asset would be recovered if there were sufficient suitable future profits to absorb all such assets.

### 5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The average annual number of persons employed during the financial year (including directors) was 2 (2004: 3).

	2005 £	2004 £
Directors' remuneration	<u>12,037</u>	<u>15,333</u>

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

	£	£
Wages and salaries	10,905	14,000
Social security costs	1,132	1,333
	<u>12,037</u>	<u>15,333</u>

# THE WALES INNOVATION FUND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2005

### 6. FIXED ASSET INVESTMENTS

	Investments £
<b>Cost</b>	
At 1 April 2004	4,999,731
Repayments	(134,192)
Disposals	(1,495,000)
At 31 March 2005	3,370,539
<b>Impairment</b>	
At 1 April 2004	3,718,612
Charge for the year	183,122
Disposals	(1,495,000)
At 31 March 2005	2,406,734
<b>Net book value</b>	
At 31 March 2005	963,805
At 31 March 2004	1,281,119

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.

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

Company	Country of origin	Nominal value of ordinary shares £	Portion of ordinary shares held %	Nominal value of preference shares £	Portion of preference shares held %	Period	Profit/ (loss) for period £	Share capital and reserves at year-end £
Valuestays Limited	UK	0.01	25.78	N/A	N/A	Year ended 31 December 2003	35,725	(50,090)
Inetec Limited	UK	1.00	23.5	N/A	N/A	Year ended 30 June 2004	445,090	25,577
The Ascent Group Limited	UK	1.00	20	1.00	100	Year ended 31 December 2004	(4,785)	263,168
IMDA	UK	1.00	25	1.00	100	Year ended 30 November 2003	(184,114)	(129,565)
CDSM	UK	1.00	25	N/A	N/A	Year ended 31 December 2004	41,243	48,938

# THE WALES INNOVATION FUND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2005

### 7. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £	2004 £
Trade debtors	1,322	1,322
Amounts owing from Finance Wales Plc	893	7,461
	<u>2,215</u>	<u>8,783</u>

### 8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £	2004 £
Trade creditors	-	823
Other creditors including tax and social security	-	2,648
Accruals and deferred income	3,000	4,900
Accrued interest	825,560	570,617
	<u>828,560</u>	<u>578,988</u>

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

	2005 £	2004 £
Finance Wales Plc investment – loan stock	1,668,840	1,656,840
Welsh Development Agency operational budget loan (see note 12)	626,181	626,181
NatWest Bank investment – 7.5% loan stock	2,843,010	2,825,009
	<u>5,138,031</u>	<u>5,108,030</u>

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

### 10. CALLED UP SHARE CAPITAL

The authorised and called up share capital of the company at 31 March 2005 and 31 March 2004 is as follows:

Number	Class	Nominal value £	2005 £	2004 £
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 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.

# THE WALES INNOVATION FUND LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2005

### 11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT

	2005 £	2004 £
Loss for the financial year	(534,827)	(527,260)
Net reduction in shareholders' deficit	(534,827)	(527,260)
Opening shareholders' deficit	(4,391,476)	(3,864,216)
Closing shareholders' deficit	(4,926,303)	(4,391,476)

### 12. 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 £626,181 (2004 - £626,181), the whole of which remained outstanding at the year-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 2005, 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.

### 13. ULTIMATE PARENT COMPANIES

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.