2591631

3i Holdings plc

Report and accounts
for the year to 31 March 2005

3i Holdings plc No. 2591431

Directors' report

The Directors submit their report with the accounts for the year to 31 March 2005.

Activities and future prospects

The principal activity of the Company and of its subsidiaries ("the Group") is investment. A full analysis of the Group's income is given in note 1 of the accounts.

There have been no changes in activity in the year and the Directors do not foresee any future changes.

Results

The profit for the year after taxation amounted to £22m (2004: £63m as restated).

Directors

P E Yea – appointed 7 July 2004
R W Perry
M J Queen
C P Rowlands
J B C Russell
P Waller
B P Larcombe - resigned 7 July 2004

M J Queen and P Waller retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for reappointment.

Directors' interests

The beneficial interests in, and options to subscribe for, Ordinary shares of 50p each in 3i Group plc of those persons who were Directors of the Company at the end of the financial year are set out overleaf. The beneficial interests include interests arising by virtue of conditional rights to acquire Ordinary shares from the trustee of The 3i Group Employee Trust (the "Trust") under the terms of The 3i Group Management Equity Investment Plan ("MEIP").

Directors' report

	Beneficial interests		Share options			
	held on 1 April 2004	held on 31 March 2005	held on 1 April 2004	granted during the period	exercised during the period	held on 31 March 2005
C P Rowlands	1,016	1,766	221,434	77,114	-	298,548
J B C Russell	106,102	106,867	459,028	77,114	-	536,142
P Waller	487,532	484,567	506,542	77,114	3,613	580,043

As potential beneficiaries of the Trust, each Director held an interest in the Ordinary shares held by the Trust. The Trust held 9,888,368 Ordinary shares as at 1 April 2004 and 12,496,297 Ordinary shares as at 31 March 2005. These holdings of the Trust include Ordinary shares over which Directors are mentioned above as having conditional rights to acquire under MEIP.

The beneficial interests of P E Yea, R W Perry and M J Queen in, and options to subscribe for, Ordinary shares of 50p each in 3i Group plc are disclosed in the accounts of that company.

P Waller has retained throughout the year an interest in one share of €16 in a fellow subsidiary company, 3i Gestion SA, and an interest in one share of €0.25 in another fellow subsidiary company, 3i SA. These shares were held in order to comply with the provisions contained in the Articles of Association of those companies.

The Directors had no other interests in, or options to subscribe for the shares, debentures or loan stock of the Company, or its fellow group companies at the beginning or at the end of the financial year.

3i Holdings plc

Directors' report

Employment

During the year ended 31 March 2005 the average number of persons employed by the Group was 740 (2004: 833).

The policy of the 3i Group ("3i") is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of gender, ethnic origin, religion and whether disabled or otherwise.

3i treats applicants and employees with disabilities equally and fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Should an employee become disabled during their employment, efforts are made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within 3i. Financial support is also provided by 3i, through a Company Disability Scheme, to disabled employees who are unable to work.

Employee appraisals, staff conferences and surveys, informal consultations and team briefings are 3i's principal means of keeping in touch with the views of its employees. Managers throughout 3i have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved by structured communication including regular meetings of employees.

3i has clear grievance and disciplinary procedures in place, which include comprehensive procedures on discrimination and 3i's equal opportunities policy. 3i also has an employee assistance programme which provides a confidential, free and independent counselling service and is available to all staff and their immediate families in the UK.

There are clearly defined staff policies for pay and working conditions.

3i 's employment policies are designed to provide a competitive reward package which will attract and retain high quality staff, whilst ensuring that the cost element of these rewards remains at an appropriate level.

Remuneration policy is reviewed by the 3i Group plc Remuneration Committee made up of five 3i Group plc non-executive Directors including the Committee Chairman F D Rosenkranz.

3i's remuneration policy is influenced by market conditions and practices in the countries in which it operates. All employees receive a base salary and are eligible for a performance related bonus and to participate in 3i share schemes (except in the US) to encourage employees' involvement in 3i's performance. Investment executives may also participate in investment performance plans and carried interest schemes which allow executives to share directly in the future profits on investments. Employees participate in local state or company pension schemes as appropriate to local market conditions. As at the most recent valuation date, 99% of UK employees were members of the 3i Group Pension Plan details of which are set out in note 9 of the accounts.

3i Holdings plc

Directors' report

Statement of Directors' responsibilities

The Directors are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year and of the result for the year. The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Appropriate accounting policies, which follow generally accepted accounting practice and are explained in the notes to the accounts, have been applied consistently and applicable accounting standards have been followed. In addition, reasonable and prudent judgements and estimates have been used in the preparation of the accounts.

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing the accounts.

Treasury risk management

The Company provides part of the funding of the overall 3i Group ("3i"). The overall funding objective of 3i continues to be that each category of investment asset is broadly matched with liabilities and shareholders' funds that have similar characteristics in terms of risk and maturity. This overall objective continued to be met during the year to 31 March 2005.

3i does not have a trading book and it holds all of its assets and liabilities for non-trading purposes. 3i companies do not trade in derivatives and do not enter into transactions of a speculative nature or which are unrelated to 3i's investment activities. Derivatives are used to manage the risks arising from 3i's investment activities.

The main funding risks faced by the Company and the Group are interest rate risk and exchange rate risk. The level of risk is in part mitigated by the overall funding objective and the 3i Group plc Board regularly reviews and approves policies on the approach to each of these risks.

Detailed policies and numerical disclosures in relation to Financial Reporting Standard 13 – Derivatives and Other Financial Instruments are set out in notes 24 to 27 on pages 31 to 35.

Directors' report

Treasury risk management continued

Day to day management of treasury activities is delegated to executive Directors of 3i Group plc and the Group Treasurer. Regular reports on 3i's funding position have been considered during the year by the 3i Group plc Board. There has been no change during the year or since the year end to the major funding risks faced by the Company or the Group, or to 3i's approach to such risks.

Charitable and political donations

Charitable donations made by the Group in the year to 31 March 2005 amounted to £343,986 (2004: £253,419).

In line with Group policy no donations were made to political parties during the year. During the period, 3i plc, the main trading company of the Group, made payments to three organisations, detailed below, which may fall within the definition of donations to EU political organisations. These payments (annual subscriptions to the Industry Forum of £3,084, the Enterprise Forum of £1,880 and the Federal Trust of £300) amounted to £5,264.

Policy for paying creditors

The Group's policy is to pay creditors in accordance with the CBI Prompt Payers Code of Good Practice, copies of which can be obtained from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company had no trade creditors at the year end.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution proposing the reappointment of Ernst & Young LLP as auditors of the Company will be put to the forthcoming Annual General Meeting.

By Order of the Board

Company Secretary

Registered Office:
91 Waterloo Road
London SE1 8XP
11 MAY 2005

Independent auditors' report to the members of 3i Holdings plc

We have audited the Group's financial statements for the year to 31 March 2005 which comprise the consolidated profit and loss account, statement of total recognised gains and losses, note of historical costs profits and losses, movement in shareholders' funds, consolidated balance sheet, Company balance sheet and the related notes 1 to 30. These financial statements have been prepared on the basis of the accounting policies set out on pages 12 to 14.

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 Company 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 judgements 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,

Independent auditors' report to the members of 3i Holdings plc

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 31 March 2005 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

Ernst & Young LLP
Registered Auditor
London
11 MAY 2005

3i Holdings plc

Consolidated profit and loss account

for the year to 31 March 2005

	Notes	2005 £m	2004 (as restated) £m
Turnover	1	205	212
Administrative expenses	1	(186)	(190)
Operating profit		19	22
Share of operating loss in joint venture	1	-	(1)
Total operating profit		19	21
Income from fixed asset investments	5	13	8
Profit on disposal of fixed asset investments	1	19	79
Other interest receivable and similar income	6	5	4
Amounts written off investments	1	(9)	(13)
Profit on ordinary activities before interest and taxation		47	99
Interest payable and similar charges	8	(24)	(30)
Other finance income / (costs)	9	1	(3)
Profit on ordinary activities before taxation		24	66
Taxation on profit on ordinary activities	10	(2)	(3)
Profit on ordinary activities after taxation		22	63
Minority interest		(2)	1
Profit retained for the year	23	20	64

3i Holdings plc

Consolidated statement of total recognised gains and losses

for the year to 31 March 2005

	Notes	2005 £m	2004 (as restated) £m
Profit retained for the year	23	20	64
Surplus on revaluation - Group	23	57	32
Actuarial loss	23	(1)	(4)
Currency translation	23	6	(17)
Total recognised gains and losses relating to the year		82	75

All of the above are derived from the Group's continuing activities.

Note of historical cost consolidated profits and losses

for the year to 31 March 2005

	2005 £m	2004 (as restated) £m
Reported profit on ordinary activities before taxation	24	66
Adjustment to profit on disposal of investments	12	24
Historical cost profit on ordinary activities before taxation	36	90
Historical cost profit for the year retained after taxation, minority interests, dividends and other appropriations	32	88

Movement in consolidated shareholders' funds

for the year to 31 March 2005

		2005 £m	2004 £m
Opening balance as previously stated	23	154	72
Prior year adjustment	23	(110)	(103)
Opening balance as restated		44	(31)
Capital contribution from immediate parent undertaking	23	60	-
Total recognised gains and losses relating to the year	23	82	75
	23	186	44

3i Holdings plc

Consolidated balance sheet

as at 31 March 2005

	Notes	2005 £m	2004 (as restated) £m
Fixed assets			
Tangible fixed assets	11	14	15
Investments	12	288	255
Interests in joint ventures	13		
Share of gross assets		33	71
Share of gross liabilities		(2)	(54)
		31	17
		333	287
Current assets			
Debtors:	15		
amounts falling due after one year		-	2
amounts falling due within one year		286	258
Cash at bank	16	100	98
		386	358
Creditors: amounts falling due within one year	17	(122)	(142)
Net current assets		264	216
Total assets less current liabilities		597	503
Creditors: amounts falling due after more than one year	18	(366)	(347)
Provisions for liabilities and charges	19	(13)	(5)
Defined benefit liability	9	(23)	(83)
		195	68
Minority interest		(9)	(24)
Net assets		186	44
Capital and reserves			
Share capital	21	1	1
Revaluation reserve	22	106	61
Profit and loss account	22	79	(18)
Equity shareholders' funds	23	186	44

Director

11 MAY 2005

3i Holdings plc

Company Balance sheet

as at 31 March 2005

	Notes	2005 £m	2004 £m
Fixed assets			
Interests in joint ventures	13	24	17
Shares in group and related undertakings	14	701	665
		725	682
Current assets			
Debtors:	15		
amounts falling due after one year		2	2
amounts falling due within one year		145	169
Cash at bank	16	37	40
		184	211
Creditors: amounts falling due within one year	17	(506)	(504)
Net current liabilities		(322)	(293)
Total assets less current liabilities		403	389
Creditors: amounts falling due after more than one year	18	(316)	(302)
Net assets		87	87
Capital and reserves			
Share capital	21	1	1
Profit and loss account	22	86	86
Equity shareholders' funds	23	87	87

Accounting policies

a Basis of preparation These accounts have been prepared under the historical cost convention, modified to include certain investments and fixed assets at valuation and in accordance with applicable accounting standards.

The Group has adopted fully the reporting requirements of FRS 17 – Retirement benefits, having previously complied with the transitional requirements of the standard. Ongoing service cost, finance charges or credits and expected returns on assets are shown in the profit and loss account and statement of total recognised gains and losses. The effect of adopting FRS 17 is to reduce consolidated shareholders' funds by £110 million at 31 March 2004.

The cash flows of the Company are included in the consolidated group cash flow statement of 3i Group plc, the immediate parent undertaking. Consequently, the Company is exempt under the terms of Financial Reporting Standard 1 – Cash flow statements – from disclosing a cash flow statement. No profit and loss account is included for the Company as permitted by Section 230 of the Companies Act 1985.

b Joint ventures and associated undertakings Joint venture and associated undertakings that are held as part of the investment portfolio of the Group are included in the accounts at the Directors' estimate of Fair Value. Dividends and interest from these investments are included in the profit and loss account as the Directors' believe that, while not complying with the Companies Act, this gives a true and fair view of the income. This treatment is in accordance with Financial Reporting Standard 9 – Associates and Joint Ventures.

A joint venture is an entity in which the Group holds an interest on a long-term basis and is jointly controlled by the Group and one or more venturers under a contractual agreement. Joint ventures through which the Group carries on its business and not held as part of the investment portfolio are accounted for using the gross equity method of accounting. The treatment adopted is in accordance with Financial Reporting Standard 9 – Associates and Joint Ventures.

c Group and related undertakings Group and related undertakings are entities which are subsidiaries of the Company. Group undertakings are those subsidiaries of the Company which are controlled within the Group; related undertakings are those which are controlled by the Company but outside the Group. The Group consolidates its investments in Group undertakings. The Company and the Group account for investments in related undertakings at the lower of cost and recoverable amount.

d Fixed assets in use by the Group Fixed assets in use by the Group are depreciated by equal annual instalments over their estimated useful lives as follows: office equipment five years; computer equipment three years; computer software three years; motor vehicles four years. Properties in use by the Group are included at external professional valuation, which is carried out at each balance sheet date. Depreciation is not provided against the value of the buildings as the amount is immaterial and impairment is considered annually. Motor vehicles being acquired on hire purchase are capitalised in the balance sheet and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the revenue account over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

Accounting policies

e Investment property Investment properties are accounted for in accordance with SSAP 19 and are revalued on an annual basis. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost on an investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year.

f Valuation of financial fixed assets and investment properties Investment packages comprising mixtures of equity shares, fixed income shares and loan investments, together with financial fixed assets of joint ventures, are included under the alternative accounting rules at the Directors' estimate of Fair Value on the following bases:

a Listed investments and quoted shares for which an active market exists are valued at mid-market price. This value is reduced by an appropriate discount dependent on the size of 3i's holding relative to normal trading volumes.

b Unquoted investments are valued by the Directors as follows: new investments are generally valued at cost until the first set of accounts for a full financial period subsequent to investment are received. An enterprise value for the investee company is estimated using various methodologies and, after adjusting for higher-ranking debt and an appropriate marketability discount, is apportioned over the remaining instruments including 3i's investments in loans, fixed income shares and equity shares. Standard methodologies include applying an average sector earnings multiple to operating profits, valuation by reference to the net asset base and the price of recent investments made in the investee company. If failure is expected the equity shares are valued at nil and the fixed income shares and loan investments are valued at the lower of cost or net recoverable amount.

c In all of the above categories of investment where failure has occurred the loss is charged in the profit and loss account.

d Deferred consideration is included at the estimated present value of the expected future proceeds. Investment properties are included at external professional valuation.

g Income recognition Dividends receivable on listed shares are brought into account on the ex-dividend date. Dividends receivable on shares where no ex-dividend date is quoted are brought into account when the right to receive payment is established. The fixed return on a loan investment is recognised on a time apportionment basis so as to reflect the effective yield on the loan. Other income, including interest receivable from derivatives, is recognised on the accruals basis except for income from finance leases and hire purchase contracts, which is credited to revenue so as to result in a constant periodic rate of return on the net cash investment.

h Administrative expenses Administrative expenses are accounted for on an accruals basis.

i Finance costs Finance costs, including those of derivatives, are accounted for on an accruals basis. Discounts, premiums and expenses arising on the issue bonds and notes are amortised over the period of the related borrowing.

j Trading assets Loans and advances to customers and other non-investment assets are carried at the lower of book amount and recoverable amount.

Accounting policies

k **Deferred tax** Provision is made for deferred tax, using the liability method, on all material timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided at a rate at which it is anticipated the timing difference will reverse. Deferred tax assets are recognised only when there is evidence that there will be taxable profits in the future to offset the deferred tax asset.

l **Foreign currency translation** Foreign currency revenue items, assets and liabilities, including those of non-UK subsidiary undertakings, are translated into sterling at the exchange rates ruling at the balance sheet date, with the exception of borrowings covered by forward exchange contracts which are translated at the contracted rates of exchange. Exchange adjustments arising on the translation of investments, borrowings and net assets including those of international subsidiary undertakings are dealt with through the profit and loss reserve.

m **Pensions** Defined benefit pension scheme assets are measured at fair value, scheme liabilities are measured using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent currency and term to the scheme liabilities. The current service cost and vested past service cost are charged to administrative expenses. The interest cost and the expected return on assets are included as other finance income or costs in the profit and loss account. Actuarial gains or losses are recognised in the statement of total recognised gains and losses.

Contributions to defined contribution schemes are charged to administrative expenses.

n **Leasing and hire purchase commitments** Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

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

o **Financial instruments** The Group's policy for exchange rate risk management is not generally to hedge its overall portfolio in Continental Europe or the US. In line with its funding policy, part of those assets are funded by borrowings in local currency and, as a result, a partial hedge exists. The majority of exchange rate hedging takes place in 3i Group plc, the immediate parent undertaking.

Interest rate risk emanates from the Group's loan investments and the Group's funding. The Group's policy is that fixed rate lending is matched with fixed rate borrowings and the interest rate resetting profile of variable rate lending is matched with that of variable rate borrowings through gearing the portfolio. Financial investments including interest rate swaps are used as part of this matching process.

3i Holdings plc

Notes to the accounts

1 Segmental analysis

The Group carries on its private equity and venture capital business in four geographical areas, the United Kingdom, continental Europe, the US and Asia Pacific and has one principal activity - the making of investments. The information shown below is based on the geographical location of investee companies and for the US and Asia Pacific also includes the results of older joint venture businesses.

Geographical areas	United Kingdom 2005 £m	Continental Europe 2005 £m	United States 2005 £m	Asia Pacific 2005 £m	Total 2005 £m
Fees receivable	46	27	-	2	75
Other	117	4	8	1	130
Turnover	163	31	8	3	205
Administrative expenses	(118)	(57)	(7)	(4)	(186)
Share of operating loss in joint venture	-	-	-	-	-
Income from fixed asset investments	4	9	-	-	13
Profit on disposal of fixed asset investments	3	16	-	-	19
Other interest receivable and similar income	3	2	-	-	5
Amounts written off investments	-	(9)	-	-	(9)
Profit on ordinary activities before interest and taxation	55	(8)	1	(1)	47
Net assets	62	106	18	-	186
Total assets	284	415	19	1	719

Geographical areas	United Kingdom 2004 (as restated) £m	Continental Europe 2004 (as restated) £m	United States 2004 (as restated) £m	Asia Pacific 2004 (as restated) £m	Total 2004 (as restated) £m
Fees receivable	31	31	-	2	64
Other	135	6	7	-	148
Turnover	166	37	7	2	212
Administrative expenses	(127)	(55)	(6)	(2)	(190)
Share of operating loss in joint venture	-	(1)	-	-	(1)
Income from fixed asset investments	-	8	-	-	8
Profit on disposal of fixed asset investments	2	36	-	41	79
Other interest receivable and similar income	2	2	-	-	4
Amounts written off investments	10	(23)	-	-	(13)
Profit on ordinary activities before interest and taxation	53	4	1	41	99
Net assets (as restated)	(32)	58	17	1	44
Total assets (as restated)	257	368	19	1	645

Notes to the accounts

2 Profit attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £67m (2004: profit £27m).

3 Operating profit

	2005 £m	**2004 £m**
This is stated after charging:		
Depreciation on owned assets	3	4
Depreciation on hire purchase assets	1	1

The auditors received fees from the audit of the Group of £0.7m (2004: £0.6m), none of which was paid by the Company.

	2005 £m	**2004 £m**
Statutory audit	0.7	0.6
Audit related regulatory reporting - UK	0.1	0.1
Total audit services	0.8	0.7
Further assurance services	0.1	0.1
Tax services (compliance and advisory services)	-	0.2
Other services:		
Investment due diligence	0.2	0.4
Secondment to the Group's investment business	-	0.1
Total other fees	0.3	0.8

Audit services are services required to be undertaken by the auditors which include the statutory audit and interim review, regulatory returns and formalities relating to borrowing, shareholder and other circulars. This work is normally allocated to the auditors.

4 Staff costs

	2005 £m	**2004 £m**
Wages and salaries	82	77
Social security costs	10	11
Other pension costs	15	15
	107	103

The average monthly number of employees during the year was 740 (2004: 833).

Notes to the accounts

5 Income from fixed asset investments

	2005 £m	2004 £m
Interest receivable on loan investments	9	4
Fixed rate dividends	4	4
	13	8

6 Other interest receivable and similar income

	2005 £m	2004 £m
Interest receivable on short-term deposits	3	2
Loan waiver	1	1
Other	1	1
	5	4

7 Directors' emoluments and related party transactions

	2005 £'000	2004 £'000
The aggregate emoluments of the Directors were:		
Salary and benefits	1,856	2,276
Performance related payments	1,899	2,173
	3,755	4,449

During the year 4 (2004: 2) of those who served as Directors of the Company exercised options to acquire shares of 50p each in 3i Group plc and 7 (2004: 6) of those who served as Directors of the Company accrued retirement benefits under the 3i Group Pension Plan, a defined benefit contributory scheme.

In addition to the Directors' emoluments shown above, all of the Directors are eligible to receive shares in 3i Group plc under the Management Equity Investment Plan. Details of this plan are set out in the Remuneration Report of 3i Group plc.

Certain Directors of the Company were also Directors of the ultimate parent undertaking, 3i Group plc, receiving total remuneration for the year of £3,219,000 (2004: £2,535,000), all of which was paid by the Group. The Directors do not believe that it is practicable to apportion this amount between their services as Directors of the Company and their services as Directors of the ultimate parent undertaking.

Notes to the accounts

7 Directors' emoluments and related party transactions continued

Highest paid Director	2005 £'000	2004 £'000
Salary and benefits	596	600
Performance related payments	541	531
	1,137	1,131

The increase in the accrued pension benefit of the highest paid Director in the year to 31 March 2005 was £1,500 (2004: £422,040).

Related party transactions

No disclosures have been made in relation to related parties as required by Financial Reporting Standard 8 - Related Party Disclosures, as the Company has taken advantage of the exemption available to subsidiary companies.

8 Interest payable and similar charges

	2005 £m	2004 £m
Interest payable on borrowings	14	18
Interest payable on swaps	8	9
Other	2	3
	24	30

9 Pension arrangements

The Group operates a number of pension schemes. The main scheme, which covers most employees, is the 3i Group Pension Plan ("the Plan"). The cost of the Plan recognised in the accounts was £12 million (2004: £10 million) and other plans was £3 million (2004: £5 million). This is a funded defined benefit scheme, the assets of which are independent of the Group's finances and are administered by Trustees. The Group accounts for pension arrangements in accordance with Financial Reporting Standard 17 - Retirement Benefits ("FRS 17"), having previously complied with the transitional disclosure requirements of the standard and SSAP 24, the effect of adopting FRS 17 is explained in the accounting policies on page 12.

The last full actuarial valuation at 30 June 2004 was updated to 31 March 2005 by an independent qualified actuary in accordance with FRS 17. The Plan's liabilities have been measured using the projected unit method. The valuation for FRS 17 purposes is based on the membership details and demographic assumptions used in the most recent actuarial valuation. The Plan assets have been updated to market value as at 31 March 2005.

Notes to the accounts

9 Pension arrangements continued

The key FRS 17 assumptions used for the Plan were:

	2005	2004	2003
Price Inflation	3.0%	2.9%	2.5%
Salary increases (excluding promotion)	4.5%	4.4%	4.0%
Pension increases	3.1%	3.0%	3.0%
Discount rate	5.4%	5.5%	5.6%

Following advice from the actuaries, no regular employer contributions were made during the period 1 July 1985 to 1 April 2002. Regular employer's contributions recommenced on 1 April 2002. For the year to 31 March 2005 standard contributions were agreed to be 29.2% of members' pensionable salaries. Additional employer contributions were made in the year to 31 March 2005 of £60m (2004: £13m, 2003: £13m and 2002: £13m).

New employees joining 3i and the Plan after 1 September 2002 are required to contribute 5% of their monthly pensionable salaries. Under its rules, the Plan was non contributory for employees, joining prior to 1 September 2002, from 1 April 1978 to 31 December 2002. From 1 January 2003, the rules of the Plan were changed and employees who joined the Plan prior to 1 September 2002 were required to contribute 1% of monthly pensionable salary, currently, the contributions are 3% of pensionable salary. This will increase by 1% each year to a target of 5% of pensionable salary.

Mr R W Perry and Mr O H J Stocken are Directors of 3i Group plc and were also throughout the year Directors of Gardens Pension Trustees Limited, one of two Corporate Trustees of the 3i Group Pension Plan.

During the year, the Board of 3i Group plc provided a guarantee to the Trustees of the Plan in respect of the liabilities to the Plan of 3i plc, the principal employer under the Plan.

The assets of the Plan and their expected return were:

	Long-term rate of return expected at 31 March 2005	2005 Value £m	Long-term rate of return expected at 31 March 2004	2004 Value £m	Long-term rate of return expected at 31 March 2003	2003 Value £m
Equities	7.7%	205	7.9%	187	7.5%	144
Gilts	4.7%	162	4.7%	62	4.5%	42
Other	4.7%	-	4.6%	23	3.8%	27
		367		272		213
Present value of Plan liabilities		(390)		(355)		(303)
Net Pension liability		(23)		(83)		(90)

A deferred tax asset has not been recognised on this deficit because its utilisation is considered unlikely in the foreseeable future.

Notes to the accounts

9 Pension arrangements continued

The following amounts have been recognised in the results for the year:

	2005 £m	2004 £m
Amount charged to administrative expenses		
Current service cost	(10)	(9)
Vested past service	(2)	(1)
Total administrative expenses	(12)	(10)
Amount charged to other finance income/(costs)		
Expected return on Plan assets	21	14
Interest on Plan liabilities	(20)	(17)
Other finance income/(costs)	1	(3)

The following amounts have been recognised in the statement of total recognised gains and losses:

	2005 £m	2004 £m
Difference between the expected and actual return on Plan assets	13	30
Experience gains/(losses) on Plan liabilities	17	(12)
Changes in assumptions underlying the present value of Plan liabilities	(31)	(22)
Actuarial loss	(1)	(4)
Total recognised gains and losses for the year	(12)	(17)

The movement in pensions deficit is as follows:

	2005 £m	2004 £m
Opening balance	(83)	(90)
Current service cost	(10)	(9)
Past service cost	(2)	(1)
Contributions	72	24
Other financial interest	1	(3)
Actuarial loss	(1)	(4)
Movement in the year	60	7
Closing balance	(23)	(83)

Notes to the accounts

9 Pension arrangements continued

	2005	2004	2003
Difference between the expected and actual return on Plan assets:			
Amount	£13m	£30m	£(76)m
Percentage of Plan assets (closing)	4%	11%	36%
Experience gains and losses on Plan liabilities:			
Amount	£17m	£(12)m	£(5)m
Percentage of present value of Plan liabilities (closing)	4%	3%	2%
Total amount recognised in statement of recognised gains and losses:			
Amount	£(1)m	£(4)m	£(93)m
Percentage of present value of Plan liabilities (closing)	-	1%	31%

Notes to the accounts

10 Taxation on profit on ordinary activities

a **The tax charge for the year comprises:**

	2005 £m	2004 £m
UK corporation tax at 30% (2004: 30%)	1	3
Less: relief for foreign tax	(1)	(3)
Foreign tax	2	3
Adjustment in respect of previous periods	-	(1)
Current tax charge for the year	2	2
Deferred tax	-	1
Tax charge for the year	2	3

The charge for the year all relates to the Company and its subsidiary undertakings.

b **Factors affecting the tax charge for the year**

The tax charge for the year differs from the standard rate of corporation tax in the UK, currently 30% (2004: 30%), and the differences are explained below :

	2005 £m	2004 (as restated) £m
Profit on ordinary activities before taxation	24	66
Profit on ordinary activities before taxation multiplied by standard UK corporation tax rate of 30% (2004: 30%)	7	20
Effects of:		
Expenses not deductible for tax purposes	3	1
Short term timing differences	(4)	-
Current period unutilised tax losses	1	4
Non taxable UK dividend income	-	-
Repatriated profits of overseas group undertakings	7	10
Tax losses claimed as group relief for nil consideration	(12)	(31)
Foreign tax	1	3
Foreign tax credits available for double tax relief	(1)	(3)
Adjustments in respect of previous periods	-	(1)
Tax charge for the year	2	3

c **Factors that may affect future tax charges**

The 3i group as a whole currently has and expects to continue to generate surplus tax losses. A deferred tax asset in respect of these surplus losses is not recognised because their utilisation is considered unlikely in the foreseeable future.

Notes to the accounts

11 Tangible fixed assets

Fixed assets in use by the Group	Investment properties £m	Properties in use by the Group £'m	Office equipment £m	Hire purchase motor vehicles £m	Total £m
Cost or valuation:					
Opening balances	5	1	56	3	65
Additions	-	-	2	1	3
Surplus on revaluation	1	-	-	-	1
Disposals	-	(1)	(10)	(1)	(12)
31 March 2005	6	-	48	3	57
Accumulated depreciation:					
Opening balances	-	-	49	1	50
Charge for year	-	-	3	1	4
Disposals	-	-	(10)	(1)	(11)
31 March 2005	-	-	42	1	43
Book amount at 31 March 2005	6	-	6	2	14
Book amount at 31 March 2004	5	1	7	2	15

Obligations under motor vehicle hire purchase contracts	2005 £m	2004 £m
Amounts payable:		
within 1 year	1	-
between 2 and 5 years	-	2
	1	2
Less finance charge allocated to future periods	-	-
	1	2

Notes to the accounts

12 Investments

	The Group Equity shares £m	The Group Loan investments £m	The Group Fixed income shares £m	The Group Total £m
Opening balances				
Cost:	208	121	5	334
Provision	(109)	(28)	(3)	(140)
Unrealised appreciation	61	-	-	61
	160	93	2	255
Additions at cost	21	22	-	43
Disposals, repayment and write-offs	(59)	(19)	(2)	(80)
Movement in provision	36	(30)	1	7
Movement in unrealised appreciation	52	-	-	52
Currency translation on cost	7	4	-	11
31 March 2005	57	(23)	(1)	33
Represented by:				
Cost	177	128	3	308
Provision	(73)	(58)	(2)	(133)
Unrealised appreciation	113	-	-	113
	217	70	1	288
Listed				
UK	-	-	-	-
Non-UK	3	-	-	3
	3	-	-	3
Unlisted				
UK	2	-	-	2
Non-UK	212	70	1	283
	214	70	1	285

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 of the Companies Act 1985 is such that compliance would result in information of excessive length being given. Full information will be annexed to the Company's next annual return. Details of the principal subsidiary undertakings and joint venture are included in note 30.

Notes to the accounts

13 Interests in joint ventures

	The Group 2005 £m	The Group 2004 £m	*The* Company 2005 £m	*The* Company 2004 £m
Opening balances				
Cost	85	114	86	114
Share of post acquisition retained surpluses less retained losses	(9)	(7)	-	-
Unrealised appreciation	(59)	(85)	(69)	(71)
	17	22	17	43
Additions at cost	14	-	13	-
Disposals, repayment and other transfers	(6)	(25)	(6)	(24)
Share of net surplus less losses	(1)	(2)	-	-
Unrealised appreciation	5	26	(2)	2
Currency translation on cost	2	(4)	2	(4)
31 March 2005	14	(5)	7	(26)
Represented by:				
Cost	95	85	95	86
Share of post acquisition retained surpluses less retained losses	(10)	(9)	-	-
Unrealised appreciation	(54)	(59)	(71)	(69)
	31	17	24	17

Notes to the accounts

14 Shares in group undertakings

	The Company Total 2005 £m
Opening balances	
Cost	864
Provisions	(199)
	665
Additions	132
Disposals	(31)
Provisions	(71)
Currency translation	6
31 March 2005	36
Represented by:	
Cost	971
Provisions	(270)
	701

15 Debtors

	The Group 2005 £m	The Group (as restated) 2004 £m	The Company 2005 £m	The Company 2004 £m
Amounts owed by group undertakings	-	-	142	141
Amounts owed by related undertakings	235	200	2	12
Other debtors	39	35	-	18
Interest recoverable	9	21	3	-
Tax recoverable	3	4	-	-
	286	260	147	171

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

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Amounts owed by group undertakings	-	2	2	2

Notes to the accounts

16 Cash at bank

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Short-term deposits	78	80	37	40
Bank deposits	22	18	-	-
	100	98	37	40

17 *Creditors: amounts falling due within one year*

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Amounts owed to group undertakings	-	-	499	493
Amounts owed to related undertakings	20	20	-	-
Accrued interest payable	7	9	7	8
Other creditors	92	107	-	1
Medium term note	-	2	-	2
Obligations under hire purchase contracts	1	2	-	-
Taxation payable	2	2	-	-
	122	142	506	504

18 Creditors: amounts falling due after more than one year

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Revolving credit facility	116	102	116	102
Medium term notes	200	200	200	200
KfW borrowings	50	45	-	-
	366	347	316	302

Maturity of creditors falling due after more than one year

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
- repayable between 1 and 2 years	76	-	76	-
- repayable between 2 and 5 years	240	302	240	302
- repayable after 5 years	50	45	-	-
	366	347	316	302

Notes to the accounts

18 Creditors: amounts falling due after more than one year continued

The Company partakes in a £2,000m Note Issuance programme together with 3i Group plc. At 31 March 2005, the Company had issued £200m of variable rate notes under this programme which mature in 2007.

The Company is able to partake alongside 3i Group plc in the following committed multi-currency facilities at 31 March 2005:

Facility	Drawn	Undrawn commitment fee	Maturity
£360m	£76m	0.0875%	21 June 2006
€595m	£40m	0.100%	29 October 2008

The drawn margin on the €595m facility increases to 0.225% if the drawn amount is between 33% and 66% of the facility, and to 0.25% if the drawn amount is greater than 66% of the facility.

Of the £360m facility, the Group and 3i Group plc had drawn a total of £151m at 31 March 2005.

19 Provisions for liabilities and charges

The Group	Property 2005 £m	Cost of organisational changes 2005 £m	Redundancy 2005 £m	Deferred tax 2005 £m	Total £m
Opening balance	2	2	-	1	5
Charge for the year	5	-	7	-	12
Utilised in the year	(1)	(2)	(1)	-	(4)
31 March 2005	6	-	6	1	13

The provision for the cost of organisational changes relates to organisational changes and staff reductions announced in the two years to 31 March 2005. This is now fully utilised. The provision for redundancy relates to redundancies announced in the year ended 31 March 2005.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs have been provided for and arise over the period of the lease.

Deferred tax

	The Group		The Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Unrealised appreciation less expected losses	1	1	-	-
	1	1	-	-

The Group has generated surplus tax losses and expects to continue to do so in the future. A deferred tax asset in respect of these surplus losses has not been recognised because their utilisation is considered unlikely in the foreseeable future.

Notes to the accounts

20 Other financial commitments

The Group

Annual commitments under non-cancellable leases are as follows:

	Land and buildings 2005 £m	Land and buildings 2004 £m
Operating leases which expire:		
Within one year	-	1
In two to five years	3	3
In over five years	3	3
31 March	6	7

21 Share capital

	Number of shares	Amount £m
Authorised, allotted, called up and fully paid shares of £1		
At 1 April 2004 and 31 March 2005	1,000,000	1

22 Reserves

	The Group revaluation reserve 2005 £m	The Group profit and loss account 2005 £m	The Company profit and loss account 2005 £m
Opening balance as previously stated	61	92	86
Prior year adjustment	-	(110)	-
Opening balance as restated	61	(18)	86
Profit (loss) for the year	-	20	(67)
Transfer to profit and loss on disposal of investments	(12)	12	-
Revaluation of investments	57	-	-
Actuarial loss	-	(1)	-
Currency translation	-	6	7
Capital contribution from ultimate parent undertaking	-	60	60
31 March 2005	*106*	*79*	*86*

3i Holdings plc

Notes to the accounts

23 Reconciliation of movements in shareholders' funds

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Opening balance as previously stated	154	72	87	77
Prior year adjustment	(110)	(103)	-	-
Opening balance as restated	44	(31)	87	77
Profit/(loss) for the year	20	64	(67)	27
Surplus on revaluation of investments	57	32	-	-
Actuarial loss	(1)	(4)		
Currency translation	6	(17)	7	(17)
Capital contribution from ultimate parent undertaking	60	-	60	-
31 March	186	44	87	87

24 Interest rate sensitivity gap analysis including the effect of swaps

Interest rate risk emanates from the Group's loan investments and the Group's funding. The Group's policy is that fixed rate lending is matched with fixed rate borrowing and the interest rate resetting profile of variable rate lending is matched with that of variable rate borrowing. Financial instruments including interest rate swaps are used as part of this matching process.

The interest rate sensitivity gap, which analyses the interest rate sensitivity of the Company's non-trading book after the effect of swaps, at 31 March 2005 was :

	Less than 3 months 2005 £m	More than 3 months but less than 6 months 2005 £m	More than 6 months but less than 1 year 2005 £m	More than 1 year but less than 5 years 2005 £m	More than 5 years 2005 £m	Non-interest bearing 2005 £m	Total 2005 £m
Tangible fixed assets	-	-	-	-	-	14	14
Investments	2	-	1	14	53	218	288
Interests in joint ventures	-	-	-	-	-	31	31
Other debtors	-	-	-	-	-	286	286
Cash at bank	99	-	-	-	1	-	100
Total assets	101	-	1	14	54	549	719
Amounts owed to related undertakings	-	-	-	-	-	20	20
Borrowings	49	-	20	241	56	-	366
Other creditors	-	-	-	-	-	115	115
Defined benefit liability	-	-	-	-	-	23	23
Minority interest	-	-	-	-	-	9	9
Shareholders' funds	-	-	-	-	-	186	186
Total liabilities	49	-	20	241	56	353	719
Interest rate sensitivity gap	52	-	(19)	(227)	(2)	196	-
Cumulative gap	52	52	33	(194)	(196)	-	-

24 Interest rate sensitivity gap analysis including the effect of swaps continued

The interest rate sensitivity gap at 31 March 2004 was:

	Less than 3 months 2004 (as restated) £m	3 months but less than 6 months 2004 (as restated) £m	More than 6 months but less than 1 year 2004 (as restated) £m	More than 1 year but less than 5 years 2004 (as restated) £m	More than 5 years 2004 (as restated) £m	Non-interest bearing 2004 (as restated) £m	Total 2004 (as restated) £m
Tangible fixed assets	-	-	-	-	-	15	15
Investments	2	-	3	17	72	161	255
Interests in joint ventures	-	-	-	-	-	17	17
Other debtors	-	-	-	-	-	260	260
Cash at bank	97	-	-	-	1	-	98
Total assets	99	-	3	17	73	453	645
Amounts owed to related undertakings	-	-	-	-	-	20	20
Borrowings	21	(10)	17	264	57	-	349
Other creditors	-	-	-	-	-	125	125
Defined benefit liability	-	-	-	-	-	83	83
Minority interest	-	-	-	-	-	24	24
Shareholders' funds	-	-	-	-	-	44	44
Total liabilities	21	(10)	17	264	57	296	645
Interest rate sensitivity gap	78	10	(14)	(247)	16	157	-
Cumulative gap	78	88	74	(173)	(157)	-	-

25 Currency exposures

Exchange rate risk emanates from its international operations. The Group's policy on exchange rate risk is not generally to hedge its overall portfolio in continental Europe or the US. In line with its funding policy, part of these assets are funded by borrowings in local currency and, as a result a partial hedge exists. The majority of exchange rate hedging takes place in 3i Group plc, the immediate parent undertaking.

The Group's structural currency exposures were as follows:

Currency	**Net investments in international operations 2005 £m**	**Borrowings taken out in the currencies of the international operations in order to fund or hedge the net investment in such operations 2005 £m**	**Remaining structural currency exposures 2005 £m**
Euro	273	(50)	223
US dollar	5	-	5
Swedish Krona	7	(76)	(69)
Total	285	(126)	159

Currency	**Net investments in international operations 2004 £m**	**Borrowings taken out in the currencies of the international operations in order to fund or hedge the net investment in such operations 2004 £m**	**Remaining structural currency exposures 2004 £m**
Euro	211	(30)	181
US dollar	35	-	35
Swedish Krona	12	(72)	(60)
Total	258	(102)	156

26 Liquidity

Liquidity of the Group is managed as part of the liquidity management of the overall Group. The Group's liquidity policy is based on a maturity ladder approach with all mismatch limits of cash flows between cumulative assets and cumulative liabilities over various time periods approved by the Board. The limits for shorter periods are also agreed with the Financial Services Authority.

27 Fair value of financial assets and financial liabilities

The Group does not have a trading book as defined by Financial Reporting Standard 13 – Derivatives and Other Financial Instruments: Disclosures (FRS13); it holds all assets and liabilities in a non-trading book.

Financial assets
Investments in subsidiary undertakings are included in the balance sheet at the lower of cost or recoverable amount. These investments are not traded on an organised market and, due to their nature, it is not practicable to reliably estimate their fair value. The fair value of other financial assets equates to their book value in the balance sheet.

Financial liabilities
FRS13 requires disclosure of the fair value of the Company's external borrowings some of which are listed even though, in some cases, the market for those borrowings is not particularly active. The fair value of these borrowings which are the only listed element of financial liabilities at 31 March 2005 was £200m, which compares with a book amount payable, including net interest payable, of £200m. The remainder of the Company's borrowings, which are unlisted, do not have a liquid or active market. The fair value of other financial liabilities equates to their book value in the balance sheet.

Derivatives
The Company does not trade in derivatives and those held hedge specific exposures of the Group and have maturities designed to match the exposures they are hedging. It is the intention to hold all of these financial instruments to maturity and therefore no net gain or loss is expected to be realised. The book value of derivatives represents net interest receivable/(payable) accrued at the balance sheet date, on such instruments, accordingly no unrealised gains or losses are included in the balance sheet. The fair value represents the replacement cost of the instruments at the balance sheet date.

The fair values and book values of the swaps were:

	Fair value 2005 £m	**Fair value 2004 £m**	**Book value 2005 £m**	**Book value 2004 £m**
Interest rate swaps	(15)	(24)	(1)	(2)

Notes to the accounts

27 Fair value of financial assets and financial liabilities continued

The principal outstanding on interest rate swap agreements were:

	2005 £m	2004 £m
Fixed rate to variable rate	-	2
Variable rate to fixed rate	276	293

All financial instruments are unsecured. However, 3i, does not expect non-performance by the counterparties, whose credit ratings are reviewed regularly.

28 Contingent liabilities

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Contingent liabilities relating to the guarantee of recourse agreements and loans	-	10	-	-

29 Parent undertaking and controlling party

The Company's immediate parent undertaking is 3i Group plc.

The Company's ultimate parent undertaking and controlling party is 3i Group plc which is incorporated in Great Britain and registered in England and Wales. Copies of its group financial statements, which include the Company, are available from 91 Waterloo Road, London, SE1 8XP.

Notes to the accounts

30 Principal subsidiary undertakings and joint ventures

Details of the principal subsidiaries and joint ventures and their country of incorporation are as follows:

Providing services:	***Class of shares***	***Percentage held***
3i plc	Shares of £1	100
3i Europe plc	Ordinary shares of £1	100
Ship Mortgage Finance Company plc	Ordinary shares of £1	100
Gardens Pension Trustees Limited	Ordinary shares of £1	100
3i Gestion SA (France)	Shares of €16	100
3i Corporation (USA) *	Common stock (USD) - no par value	100
3i Asia Pacific plc	Ordinary shares of £1	100
3i Nordic plc	Ordinary shares of £1	100
Involved in investment activity:		
3i International Holdings	Shares of £10	100
Joint venture involved in investment activity at 31 March 2005:		
DIAB Intressenter AB (Sweden)	Ordinary shares Skr100	50

All the principal subsidiary undertakings and joint ventures are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 of the Companies Act 1985 is such that compliance would result in information of excessive length being given. Full information will be annexed to the Company's next annual return.

* held through subsidiary undertaking