Westpool Investment Trust plc

Directors' report and financial statements

31 March 2006

Registered in England and Wales number 255691

Westpool Investment Trust plc

Directors' report and financial statements

Contents

Westpool Investment Trust plc

Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2006.

Principal activities

The Company is an investment holding company. The directors foresee no material change in the nature of the Company's activities.

Business review

Net assets at 31 March 2006 were £15.7 million an increase of £26.1 million from net liabilities of £10.4 million at 31 March 2005.

Operating loss for the year was £0.1 million (2005: £0.1 million), while profit after tax was £26.2 million (2005: £3.1 million). This increase in profit after tax is due to an inter-company debt of £22.5 million being waived by London Merchant Securities plc as part of the de-merger of the investment division.

The Board uses the following measure to monitor performance of the Company:

Return on Equity – this is a measure of growth in Equity Shareholders' funds per share, adding back any current year dividend. In the year ended 31 March 2006 Return on Equity was 251%.

The Company's objective is to achieve medium-to-long term growth through a diversified portfolio of investments in public and private companies and funds.

In order to implement this objective, the Company's strategy is to invest in and actively manage significant stakes in a diversified range of investments.

The principal risks that the Company faces have been identified as follows:

- investment in Companies in which the company has invested and intends to target carries risk and the Company could lose all or part of its investment;
- the Company may not be able to re-invest proceeds from disposals in suitable investment opportunities;
- the sectors in which the Company has investments, and is intending to invest in, are subject to many risks, including volatility, intense competition, decreasing life cycles and periodic downturns; and
- risks relating to fund investments and third party management thereof.

Financial review and dividends

The results for the year are set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (*2005: £Nil*).

Payment of suppliers

The Company does not have a formal policy for the payment of suppliers. However, most invoices are paid within 28 days of receipt. The Company has no trade creditors at year end.

Directors and directors' interests

The directors who held office during the year were as follows:

N R Friedlos
M A Pexton
The Hon R A Rayne

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

Directors' report *(continued)*

The interests of Mr N R Friedlos, Mr M A Pexton and The Hon R A Rayne in the shares of the Company's ultimate holding company and fellow subsidiary undertakings are set out in the financial statements of London Merchant Securities plc, the ultimate holding company.

Post year-end event

On 12 June 2006, the investment division of London Merchant Securities plc was successfully demerged and floated as a new company listed on AIM. The Company is now a wholly-owned subsidiary of Leo Capital plc.

Mr A C S Sweet was appointed a director of the Company on 14 August 2006.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with s.385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

M A Pexton
Director

Carlton House
33 Robert Adam Street
London
W1U 3HR

29 August 2006

Westpool Investment Trust plc

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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 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 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the members of Wespool Investment Trust plc

We have audited the financial statements of Westpool Investment Trust plc for the year ended 31 March 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. 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 on page 3, the company's directors are responsible for preparation of the financial statements in accordance with applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

29 August 2006

Westpool Investment Trust plc

Profit and loss account

for the year ended 31 March 2006

	Note	2006 £	Restated (see note 1) 2005 £
Turnover		**315**	-
Administrative expenses	*2*	**(61,157)**	(49,034)
Operating loss		**(60,842)**	(49,034)
Investment income	*3*	**2,718**	15,226
Profit on disposal of investments	*4*	**5,241,691**	5,779,606
Fair value adjustments	*5*	**(5,224,280)**	(2,799,725)
Profit on disposal of investment in group company	*10*	**562,649**	-
Forgiveness of group debt	*7*	**22,500,000**	-
Profit on ordinary activities before finance costs		**23,021,936**	2,946,073
Net finance income	*6*	**94,579**	463,277
Profit on ordinary activities before taxation		**23,116,515**	3,409,350
Tax on profit on ordinary activities	*8*	**3,045,407**	(271,691)
Profit on ordinary activities after taxation		**26,161,922**	3,137,659
Profit for the financial year	*14*	**26,161,922**	3,137,659

All results are derived from continuing activities.

There is no difference between the results as stated and their historical cost equivalents.

Westpool Investment Trust plc

Balance sheet *at 31 March 2006*	*Note*	**2006** **£**	**2006** **£**	Restated (see note 1) 2005 £	Restated (see note 1) 2005 £
Fixed assets					
Investments	*9*		**75,644,405**		68,331,009
Investments in subsidiary undertakings	*10*		**-**		954,460
			75,644,405		69,285,469
Current assets					
Debtors	*11*	**7,597,057**		317,933	
Cash at bank and in hand		**57**		53	
		7,597,114		317,986	
Creditors: amounts falling due within one year	*12*	**(67,494,574)**		(80,018,432)	
Net current liabilities			**(59,897,460)**		(79,700,446)
Net assets/(liabilities)			**15,746,945**		(10,414,977)
Capital and reserves					
Called up share capital	*13*		**10,013,660**		10,013,660
Share premium account	*14*		**588,615**		588,615
Profit and loss account	*14*		**5,144,670**		(21,017,252)
Equity shareholders' funds/(deficit)	*15*		**15,746,945**		(10,414,977)

These financial statements were approved by the board of directors on 29 AUGUST 2006 and were signed on its behalf by:

N R Friedlos
Director

Westpool Investment Trust plc

Statement of total recognised gains and losses
for the year ended 31 March 2006

	2006 £	Restated (see note 1) 2005 £
Profit for the financial year	**26,161,922**	3,137,659
Total recognised gains and losses relating to the financial year	**26,161,922**	3,137,659
Prior year adjustment	**3,216,117**	
Total gains and losses recognised since last annual report	**29,378,039**	

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time.

The new UK accounting standards are:

-FRS 21 'Events after the balance sheet date'
-the presentational requirements of FRS 25 'Financial instruments: disclosure and presentation' ; and
-FRS 28 'Corresponding amounts'

FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

During the year the Company changed its accounting policy for valuation of investments. Investments previously held at cost less impairment have been restated at fair value, with any change in revaluation being charged or credited to the profit and loss account.
The adoption of this accounting policy has resulted in an increase in net assets of £3.2 million at 31 March 2005, and a decrease in profit on disposal of investments and unrealised fair value adjustments of £0.8 million and £1.0 million respectively. The impact on net assets at 31 March 2004 was an increase of £5.0 million.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, except for investments and investment in subsidiaries which are stated at their fair value.
Under Financial Reporting Standard 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Investments

Investments are included in the balance sheet at fair value. Fair values have been determined in accordance with industry guidelines. These guidelines require the valuer to make judgements as to the most appropriate valuation method to be used and the results of the valuations. Each investment is reviewed individually with regards to the stage, nature and circumstances of the investment and the most appropriate valuation method selected.
The valuation results are then reviewed and any amendment to the carrying value of investments is made as considered appropriate.

Notes *(continued)*
(forming part of the financial statements)

1 Accounting policies *(continued)*

Quoted investments
Quoted investments for which an active market exists are valued at the closing bid price on the balance sheet date. Quoted investments which are subject to contractual restrictions on when they may be sold, are valued at the closing bid price on the balance sheet date, discounted in accordance with industry guidelines as appropriate.

Unquoted direct investments
Unquoted direct investments for which there is no ready market are valued using the most appropriate valuation technique with regard to the stage and nature of the investment. Valuation methods that may be used include:

- Recent investments are valued at cost subject to an impairment review.
- Investments in which there has been a recent funding round involving significant financing from external investors are valued at the price of the recent funding, discounted if an external investor is motivated by strategic considerations.
- Investments in an established business which is generating sustainable profits and positive cash flows are valued using earnings multiples.
- Investments in a business the value of which is derived mainly from its underlying net assets rather than its earnings are valued on the basis of net asset valuation.
- Investments in an established business which is generating sustainable profits and positive cash flows but for which other valuation methods are not appropriate are valued by calculating the discounted cash flow of future cash flows or earnings.
- Investments in a business which is not generating sustainable profits or positive cash flows and for which there has not been any recent independent funding are valued by calculating the discounted cash flow of the investment to the investors. This valuation basis will primarily be used to determine whether there is any impairment to the carrying value of the asset and, due to the subjective nature of the calculation and the dependence on the outcome of unknown future events, will only give rise to a valuation increase in exceptional circumstances and where there is also additional evidence of an increase in value, such as additional funding or profit generation.

Funds
Investments in managed fund are valued at fair value. The General Partners of the funds will generally provide periodic valuations on a fair value basis which the company will adopt provided it is satisfied that the valuation methods used by the funds are not materially different from the company's valuation methods.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date, and exchange differences are included in the profit and loss account.

The results and balance sheets of overseas operations are translated at the closing rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets are dealt with through reserves.

Investments denominated in foreign currencies remain at the initial recorded amount and are not retranslated as these balances represent the historical cost of acquiring these investments.

Notes *(continued)*
(forming part of the financial statements)

1 Accounting policies *(continued)*

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Subsidiary undertakings valuation

The company's investments in the shares of Group undertakings are stated as directors' valuation on a basis which takes account of the net assets of the undertakings at 31 March 2006 which will include the professional valuation of properties. Surpluses and temporary deficits arising from the directors' valuation are taken to revaluation reserve in the company balance sheet, permanent diminutions in value are taken to the company profit and loss account.

Notes *(continued)*

2 Administrative expenses

	2006	2005
Administrative expenses include:	**£**	£
Auditors' remuneration:		
Other services	**7,729**	13,236

Audit fees have been paid by London Merchant Securities plc in both years.

The Company does not have any employees (2005: nil) and there were no directors' emoluments (2005: £nil).

3 Investment income

	2006	2005
	£	£
Dividends from listed investments	**2,718**	15,226

4 Profit on disposal of investments

		Restated (see note 1)
	2006	2005
	£	£
Profit on disposal of investments	**6,126,072**	6,082,193
Partnership net losses	**(884,381)**	(302,587)
	5,241,691	5,779,606

5 Fair value adjustments

		Restated (see note 1)
	2006	*2005*
	£	£
Amounts written down	**(15,578,563)**	(5,494,390)
Amounts written back	**10,354,283**	2,694,665
	(5,224,280)	(2,799,725)

Notes *(continued)*

6 Net finance income

	2006	2005
	£	£
Other interest receivable and similar income		
Short term deposits	**2,209**	3,036
Unlisted securities	**112,192**	454,101
Exchange gain	**899**	6,603
	115,300	463,740
Interest payable and similar charges		
Other	**(20,721)**	(463)
	94,579	463,277

7 Forgiveness of group debt

	2006	2005
	£	£
Debt waiver - intercompany debt reorganisation	**22,500,000**	-

During the year, as part of the de-merger arrangements of the LMS investment division, there was a reorganisation of the inter-company indebtedness between the investment and property companies within the LMS Group. As a consequence of this reorganisation, £22.5 million owing to the LMS Group was waived.

8 Tax on profit on ordinary activities

	2006	2005
Analysis of (credit)/charge in the year	**£**	£
UK Corporation tax		
Adjustments in respect of prior periods	**(120,353)**	(22,034)
Group relief		
Current year	**(1,090,999)**	33,497
Adjustments in respect of prior periods	**(1,953,979)**	(46,966)
Overseas tax	**119,924**	307,194
Total current tax	**(3,045,407)**	271,691

The company's tax losses have been surrendered to other Group companies.

Notes *(continued)*

8 Tax on profit on ordinary activities

Factors affecting the tax charge for the year

The current tax charge for the year is lower (2005: lower) than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are explained below.

	2006 £	Restated (see note 1) 2005 £
Current tax reconciliation		
Profit on ordinary activities before taxation	**23,116,515**	3,409,350
Current tax at 30% (2005: 30%)	**6,934,955**	1,022,805
Effects of:		
Non - taxable investment fair value adjustments	**1,567,284**	1,092,303
Inter-company loan waiver not taxable	**(6,750,000)**	-
Adjustments to tax charge in respect of previous periods	**(2,074,332)**	(69,000)
Transfer pricing adjustments	**(2,575,692)**	-
Venture capital profits reduced by loss relief	**(591,940)**	(2,077,043)
Overseas tax on gains	**119,924**	307,194
Other items	**324,395**	(4,568)
Current tax (credit)/charge for the year	**(3,045,407)**	271,691

Notes *(continued)*

9 Investments

	Fund Investment £	Listed Investment £	Unlisted Investment £	Total £
At 31 March 2005 (restated)	18,024,983	11,908,447	38,397,579	**68,331,009**
Reclassification	(146,492)	146,492	-	-
Additions at cost	4,126,441	9,735,780	14,992,802	**28,855,023**
Proceeds from disposal	(8,177,447)	(10,920,553)	(2,461,038)	**(21,559,038)**
Gain on disposal	522,844	4,368,955	349,892	**5,241,691**
Revaluations	2,017,452	7,779,610	(15,021,342)	**(5,224,280)**
At March 2006	**16,367,781**	**23,018,731**	**36,257,893**	**75,644,405**

As is common practice in the venture capital industry, the investments are structured using a variety of instruments including Ordinary shares, Preference and other shares carrying special rights, options and warrants and debt instruments both with and without conversion rights. The investments are held for resale with a view to the realisation of capital gains. Generally, the investments do not pay significant income.

Historical cost

	Fund Investment £	Listed Investment £	Unlisted Investment £	Total £
At 31 March 2006	**21,720,329**	**19,703,266**	**61,990,191**	**103,413,786**
At 31 March 2005	27,819,964	15,689,461	49,341,055	92,850,480

Notes *(continued)*

10 Investments in subsidiary undertakings

Name	Country of registration	% holding	Activity
London Merchant Securities Inc	United States	6	Holding Company

London Merchant Securities Inc was disposed of during the year to Merchant Overseas Holdings Limited, another company in the group for £1,517,109 realising a gain of £562,649.

Cost	£
At 31 March 2005	954,460
Disposal	(954,460)
At 31 March 2006	-

11 Debtors

	2006	2005
	£	£
Amounts owed by group undertakings	**3,667,370**	-
Group relief receivable - current year	**1,090,999**	-
Group relief receivable - prior year	**1,953,979**	46,966
Other debtors	**884,709**	270,967
	7,597,057	317,933

12 Creditors: amounts falling due within one year

	2006	2005
	£	£
Amounts owed to group undertakings	**66,753,313**	79,984,935
Group relief payable - current year	-	33,497
Corporation tax	**167,801**	-
Other creditors	**573,460**	-
	67,494,574	80,018,432

Notes *(continued)*

13 Called up share capital

	2006	2005
	£	£
Authorised		
167,600,000 Ordinary shares of 10p each	**16,760,000**	16,760,000
Allotted, called up and fully paid		
100,136,604 Ordinary shares of 10p each	**10,013,660**	10,013,660

14 Reserves

	Share premium	Profit and loss account
	£	£
At 31 March 2005	588,615	(24,233,369)
Prior year adjustment (see note 1)	-	3,216,117
At 31 March 2005 as restated	588,615	(21,017,252)
Profit for the financial year	-	26,161,922
At 31 March 2006	**588,615**	**5,144,670**

15 Reconciliation of movements in equity shareholders' funds

	2006	Restated (see note 1) 2005
	£	£
Profit for the financial year	**26,161,922**	3,137,659
Net movement in equity shareholders' funds	**26,161,922**	3,137,659
Opening equity shareholders' deficit (originally £13.6 million restated for prior year adjustment of £3.2 million)	**(10,414,977)**	(13,552,636)
Closing equity shareholders' funds/(deficit)	**15,746,945**	(10,414,977)

Notes *(continued)*

16 Commitments

Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2006	2005
	£	£
Partly paid investments	**2,178,915**	4,037,158

17 Going concern

On the 12 June 2006, the investment division of London Merchant Securities was successfully demerged and floated as a new company listed on AIM . The company is now a wholly owned subsidiary of the Leo Capital plc group. Leo Capital plc has provided the company with an understanding that for at least twelve months from the date of approval of these financial statements, it will continue to make available such funds as they are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for repayment. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this understanding the directors believe that it remains appropriate to prepare the financial statements on a going concern basis notwithstanding the net current liabilities and net liabilities on the company's balance sheet. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

18 Related party transactions

The Company is controlled by LMS Capital Limited, the Company's immediate parent company.
The ultimate controlling party at the balance sheet date is London Merchant Securities plc, the company's ultimate parent company.
As a wholly owned subsidiary of London Merchant Securities plc, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 "Related party disclosures" and has therefore not disclosed transactions or balances with entities which form part of the group.

Notes *(continued)*

19 Ultimate parent company

At the balance sheet date the Company is a subsidiary undertaking of London Merchant Securities plc which is the ultimate parent company incorporated in England and Wales. After the year end the ultimate parent company changed as described in note 20.

No other group financial statements include the results of the company. The Consolidated financial statements of London Merchant Securities plc may be obtained at the following address:
Carlton House, 33 Robert Adam Street, London W1U 3HR.

20 Post year-end event

On 12 June 2006, the investment division of London Merchant Securities plc demerged and floated as a new company listed on AIM. The Company is now a wholly-owned subsidiary of Leo Capital plc.