

Westpool Investment Trust plc

Directors' report and financial statements

31 March 2004

Registered in England and Wales number 255691



Westpool Investment Trust plc

Directors' report and financial statements

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Westpool Investment Trust plc

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

Financial review

The results for the year are set out in the profit and loss account on page 5. No dividend (2003:£Nil) is recommended.

Principal activities

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

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.

Directors and directors' interests

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

N G E Driver (resigned 11 March 2004)

N R Friedlos

M A Pexton

The Hon RA Rayne

The Hon R A Rayne retires by rotation, and, being eligible, offers himself for re-election

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

The interests of Mr N R Friedlos, Mr M A Pexton and The Hon R A Rayne in 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.

Westpool Investment Trust plc

Auditor

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

By order of the board



SC Mitchley
Secretary

Carlton House
33 Robert Adam Street
London
W1U 3HR

2, October. 2004

Westpool Investment Trust plc

Directors' responsibilities statement

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 and of the profit or loss 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, 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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 auditor's report to the members of Westpool Investment Trust plc

We have audited the financial statements on pages 5 to 12.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit opinion

We conducted our audit in accordance with 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 affairs of the Company at 31 March 2004 and of its loss 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

21 October 2004

Westpool Investment Trust plc

Profit and loss account

for the year ended 31 March 2004

	Note	2004 £000	2003 £000
Income from fixed asset investments	2	42	43
Administrative expenses	3	(50)	(94)
		<hr/>	<hr/>
Operating loss		(8)	(51)
Gain on sale of investments	4	2,929	264
Amounts written off other investments	5	(6,759)	(23,347)
Net interest receivable	6	96	130
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(3,742)	(23,004)
Tax on loss on ordinary activities	7	477	2,779
		<hr/>	<hr/>
Loss on ordinary activities after taxation	12	(3,265)	(20,225)
		<hr/>	<hr/>

All turnover and results are derived from continuing activities.

There were no recognised gains or losses other than the loss for the year.

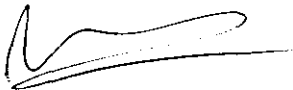
Westpool Investment Trust plc

Balance sheet

at 31 March 2004

	Note	2004 £000	2003 £000
Fixed assets			
Investments	8	75,467	70,700
Current assets			
Debtors	9	3,213	4,761
Cash at bank and in hand		-	1
		<hr/>	<hr/>
		3,213	4,762
Creditors: amounts falling due within one year	10	(97,248)	(90,765)
		<hr/>	<hr/>
Net current liabilities		(94,035)	(86,003)
		<hr/>	<hr/>
Net liabilities		(18,568)	(15,303)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	11	10,014	10,014
Share premium account	12	588	588
Profit and loss account	12	(29,170)	(25,905)
		<hr/>	<hr/>
Equity shareholder's deficit	13	(18,568)	(15,303)
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 21 October 2004 and were signed on its behalf by:



N R Friedlos
Director

Westpool Investment Trust plc

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 Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company is exempt, by virtue of s228 of the Companies Act 1985, from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

The financial statements have been prepared on a going concern basis notwithstanding the deficiency in net assets as the ultimate parent company, London Merchant Securities Plc, has undertaken to continue to provide financial support to the Company for the following 12 month period.

Turnover

Turnover represents amounts invoiced to outside customers excluding VAT.

Investments

Investments are shown at cost, less amount written off to reflect permanent diminutions in value. Profits and losses on sale and provisions against investments are included in the profit and loss account. The profit and loss account includes the group's share of income and expenses of those unlisted investments operating as limited partnerships.

Dividends from listed investments are credited to the profit and loss account on the dates when the investments concerned are first listed ex dividend.

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 or, if appropriate, at the forward contract rate.

The results and balance sheets of overseas operations are translated at the closing rates ruling at the balance sheet dates.

Exchange differences arising on translation of the opening net assets are dealt with through reserves. All other exchange differences are included in the profit and loss account.

Venture capital 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. There are no foreign currency borrowings against these assets.

Deferred taxation

Deferred taxation is recognised, without discounting, in respect of 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.

Westpool Investment Trust plc

Notes (continued)

2 Income from fixed asset investments

	2004 £000	2003 £000
Dividends from listed investments	42	43

3 Administrative expenses

	2004 £000	2003 £000
Auditors' remuneration:		
Audit	-	5
Other services	9	28

Audit fees for the year ended 31 March 2004 are accounted for on a group basis.
The directors received no remuneration (2003: £nil).

4 Gain on sale of investments

	2004 £000	2003 £000
Gain on sale of investments	2,929	264

5 Amounts written off other investments

	2004 £000	2003 £000
Write-offs	(8,281)	(24,337)
Write-backs	2,016	1,600
Partnership net losses	(494)	(610)
	(6,759)	(23,347)

The Company's share of administration costs incurred by limited partnerships in which it has invested has previously been shown as part of the Company's operating loss. These costs are under the control of the individual limited partnership fund managers, are funded from the capital invested, and comprise part of the overall investment return. They have therefore been reclassified and combined with amounts written off venture capital investments. The prior year presentation has been adjusted accordingly.

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Notes (continued)

6 Net interest receivable

	2004 £000	2003 £000
Interest receivable:		
Short term deposits	-	31
Other	109	99
Exchange loss	(3)	-
	<u>106</u>	<u>130</u>
Interest payable:		
Other	(10)	-
	<u>96</u>	<u>130</u>

7 Tax on loss on ordinary activities

	2004 £000	2003 £000
Group relief receivable	(449)	(2,495)
Corporation tax:		
Overseas tax	(28)	(27)
Prior year adjustment	-	(257)
Corporation tax on gains:		
	<u>(477)</u>	<u>(2,779)</u>

Factors affecting the tax charge for the year

The tax assessed for the year is lower than that at the standard rate of corporation tax for the year.

The differences are explained below:

	2004 £000	2003 £000
Loss on ordinary activities before taxation	<u>(3,742)</u>	<u>(23,004)</u>
Loss on ordinary activities multiplied by the standard UK rate of corporation tax at 30%	(1,123)	(6,901)
Amounts received for group relief in excess of 30% of the taxable loss	(314)	(400)
Investment provisions not yet available for tax relief	1,880	6,821
Utilisation of prior year provisions	-	(2,196)
Venture capital profits reduced by loss relief	(879)	-
Indexation	-	(64)
Other items	(41)	(39)
	<u>(477)</u>	<u>(2,779)</u>

Current tax credit for the year

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Notes (continued)

8 Fixed asset investments

	Funds £000	Listed £000	Unlisted £000	Total £000
At 31 March 2003 at cost less amounts written off	23,403	18,516	28,781	70,700
Additions at cost	2,863	6,538	19,321	28,722
Amounts written off	(2,296)	431	(4,400)	(6,265)
Reclassification	(215)	(5,036)	5,251	-
Disposals	(4,342)	(7,497)	(5,851)	(17,690)
At 31 March 2004	19,413	12,952	43,102	75,467

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.

Fair values

	Funds £000	Listed £000	Unlisted £000	Total £000
At 31 March 2004	21,284	13,635	43,102	78,021
At 31 March 2003	24,808	17,765	28,781	71,354

The basis of the fair value disclosures shown above is as follows:

In the case of listed investments this is disclosed based on the quoted market value at the balance sheet date.

In respect of investments in funds, fair value is based on external managers' valuations.

In respect of unlisted investments against which write-downs have been made, the written down value is considered to be the same as fair value.

In respect of all other unlisted investments the determination of fair value in excess of cost is highly judgemental. Unless there is an imminent transaction which indicates a fair value materially in excess of cost, the fair value of these investments is taken as cost.

Of the above, £20.6 million are investments which are subsidiary undertakings.

Information on these investments is given below.

The percentage holding assumes the exercise of all conversion and dilution rights that are entitled to be exercised at 31 March 2004.

Investment	Activity	Percentage holding %	Most recent audited accounts	Most recent audited net assets £000	Most recent audited net loss £000
Ridgeway Systems and Software Inc	Secure solutions for IP multimedia communication	88	31.12.03	(1,722)	(2,525)
Entuity Limited	Network management software	66	31.12.02	923	(2,736)
Offshore Tool and Energy Corporation ('ITS')	Specialist engineering design and fabrication for the energy industry	100	31.12.02	798	(4,838)

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Notes (continued)

9 Debtors

	2004 £000	2003 £000
Group relief receivable:		
Current year	449	2,496
Prior year	1,923	-
Other debtors	841	2,265
	<hr/>	<hr/>
	3,213	4,761
	<hr/>	<hr/>

10 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to group undertakings:		
Fellow subsidiary undertakings	97,196	90,716
Other creditors	52	7
Corporation tax	-	42
	<hr/>	<hr/>
	97,248	90,765
	<hr/>	<hr/>

11 Called up share capital

	2004 £000	2003 £000
<i>Authorised</i>		
167,600,000 ordinary shares of 10p each	16,760	16,760
	<hr/>	<hr/>
	£000	£000
<i>Allotted, called up and fully paid</i>		
100,136,604 ordinary shares of 10p each	10,014	10,014
	<hr/>	<hr/>

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Notes (continued)

12	Reserves	Share premium £000	Profit and loss account £000
	At 31 March 2003	588	(25,905)
	Retained loss for the year	-	(3,265)
	At 31 March 2004	588	(29,170)
13	Reconciliation of movements in shareholders' funds	2004 £000	2003 £000
	Loss for the financial year	(3,265)	(20,225)
	Net movement in shareholders' funds	(3,265)	(20,225)
	Opening shareholders' deficit	(15,303)	4,922
	Closing shareholders' deficit	(18,568)	(15,303)
14	Capital commitments	2004 £000	2003 £000
	Partly paid investments	5,124	7,731

15 Ultimate parent company

The Company is a member of the London Merchant Securities Group and the Company's ultimate parent company is London Merchant Securities plc, which is registered in England and Wales. Copies of the accounts of the above company may be obtained at the following address: Carlton House, 33 Robert Adam Street, London W1U 3HR.

16 Cash flow statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking.

17 Going Concern basis

The Company's parent company, London Merchant Securities plc, has undertaken to make available to the Company sufficient funds to enable it to continue trading.

18 Related party transactions

The Company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by London Merchant Securities plc on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in the consolidated financial statements.