

BILLAM PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2004

Company Number: 00298654

BILLAM PLC

FINANCIAL STATEMENTS

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Chairman's Statement

**“More than
50% of the
portfolio
quoted by the
year end”**

2004 has seen significant change in your Company's asset base. The business model, which was formulated in 2000 and backed by many of the current shareholders, is completing its objective of turning its unquoted investments into quoted ones. More than 50% of the portfolio (measured both by number and value including those quoted investments held by EiRx Pharma Limited) was quoted by the year end (2003: 25% and 33% respectively).

Further, many of the companies have advanced the commercial development of their businesses, particularly through new contracts with major customers. A description of each investee company is shown on pages 6 -8.

Many of the investments are exploiting world leading technologies and, in some cases, are market leaders. However, the market value of two of the quoted investments has fallen in the year and this has had an immediate impact on Billam's net asset value. We believe that as these companies evolve further, there will be an upward re-rating of their valuations.

Billam's philosophy has been to identify and back, with both funding and management support, companies seeking to exploit rapidly growing markets. Your Company's portfolio has proved to be resilient despite the difficulties caused by economic and stock market conditions from 2001 through 2003.

Company

During 2004, the objectives I identified in my report last year have to a great extent been achieved:

Following the consolidation, the bid/offer spread has reduced from approximately 100% to 25%. However, this still remains larger than is desirable. The Company is taking steps to achieve further reductions through a combination of increased and improved communications with shareholders, market professionals and commentators.

Administrative costs have been reduced from £871,000 to £622,000.

I would like to thank all the staff including my fellow directors for their hard work during the year.

Shareholders

We welcome the support of all existing shareholders and new investors who became shareholders during the year. Your Board is continuing its efforts to create awareness of Billam's achievements.

We have entered a period of change when the valuation of the Company's existing portfolio is becoming increasingly transparent, through market prices. Whilst this makes our portfolio vulnerable to stock market fluctuation over the short term we believe that over the longer term it will lead to capital growth.

The free share - dealing scheme for small shareholders was well received in 2004. A similar scheme will be offered in March 2005. This year eligible shareholders – those with holdings of 500 or less Ordinary 10 pence shares – will receive a personal letter and details of the scheme allowing them to sell or buy shares.

As I explained in my 2004 interim statement, it is the intention of the Board to have a further consolidation in 2005. Details will be circulated with the Report and Accounts and notice of the AGM.

Outlook

Billam made progress during 2004 – your Company's investments are developing well and further progress is anticipated in 2005. This will be achieved by commercial development within the investee companies, and through more companies being floated.

Many good investment proposals are being received by the Company and it is the Board's intention to take advantage of selected investment opportunities.

Victor Beamish

Chairman
11 February 2005

“Further progress is anticipated in 2005”

BILLAM PLC

BOARD OF DIRECTORS AND ADVISERS

Board of directors:	Victor Beamish (aged 51) Non-executive Chairman Chairman of the Audit and Remuneration Committees
	Angus Forrest (aged 51) Chief Executive
	Juliet Hoskins (aged 49) Non-executive director
Company registration number:	00298654
Registered office:	32 Clerkenwell Green, London, EC1R 0DU Tel. 00 44 (0)20 7336 1300
Website:	www.billamplc.co.uk
Secretary:	Pinsent Masons Secretarial Limited 1 Gresham Street, London, EC2V 7BU
Bankers:	Bank of Scotland
Solicitors:	Pinsents Masons 1 Gresham Street, London, EC2V 7BU
Auditors:	Grant Thornton UK LLP 28 Kenwood Park Road, Sheffield, S7 1NG
Nominated Adviser and Broker:	KBC Peel Hunt Limited 111 Old Broad Street, London, EC2N 1PH
Joint Broker	Seymour Pierce Ellis Limited Talisman House, Jubilee Walk, Three Bridges, Crawley, West Sussex RH10 1LQ
Registrars:	Computershare Investor Services PLC PO Box 82 The Pavilions, Bridgewater Road, Bristol, BS99 7NH Tel. 0870 8735838
Financial Public Relations	Bishopsgate Communications Ltd 4 – 5 North Mews, London WC1N 2JP

Chief Executive's Report

Executive Report

I am pleased to report that the portfolio companies have developed well in 2004 and many have been transformed commercially by winning new and valuable contracts with blue chip customers. This has increased the credibility of their technologies and value of product offerings, which further bolsters their capital value and makes flotation (or sale) a viable expectation. As Victor Beamish, our Chairman, has already identified there has been a transformation of the portfolio from unquoted to quoted over the past year.

**“Four flotations
in 2004”**

Investment Policy

The investee companies are no longer reliant on Billam Plc as their sole or major source of finance. This development has been assisted by the flotation of three existing portfolio companies in 2004, and one new investee company in which Billam invested at flotation.

Investment Activity

We continued to support two investee companies prior to flotation: EiRx Therapeutics plc and Physiomics plc, both of which floated in 2004; and we have made three new investments: Sareum plc, TMO Biotec Ltd and Intellego Holdings plc. Two of these had Initial Public Offerings (IPOs) on AIM in 2004.

All investee companies are described on pages 6 - 8 of this report.

Performance in the year 1 January 2004 – 31 December 2004.

Valuations

The increasing proportion of the portfolio which is held in quoted shares makes the valuation of your Company's assets more transparent as these are valued at market value at the year end. Two of Billam's quoted investments, Physiomics and EiRx Therapeutics are held via an unquoted intermediary holding company, EiRx Pharma Ltd. EiRx Pharma's directors intend to distribute the quoted shares to the shareholders at which time Billam's investment portfolio will be adjusted. The impact of this will be to increase the value of the quoted portfolio by £4,389,000 and decrease the value of the unquoted by a corresponding amount.

“Increasing proportion of quoted investments should allow Billam’s management increased flexibility”

The carrying cost, value and method of valuation is shown for each investment on pages 6 - 8.

Value of Investments

The number and maturity of the quoted investments can lead to volatility in values, which are measured at a particular moment. It is anticipated that as the business develops and the number of quoted investments increases, so the portfolio price volatility should reduce.

Our target is for Net Asset Value per share to outperform the benchmark indices shown below over the longer term:

Net assets per share have fallen by 47% in the year compared to the following index increases in the year:

FTSE	Techmark All Share Index	9.7 %
FTSE	All Share Index	9.2 %
FTSE	AIM	20.4 %

However, over the four year period from 1 June 2000 they have grown 74%, which compares favourably with the FTSE All Shares Index :- 20% and FTSE AIM Index :- 39%

Outlook for the Portfolio

In 2004 more investee businesses began to demonstrate their potential. Whilst this has facilitated four flotations in 2004, so far it has not been fully recognised by the Stock Market in terms of increased values.

Rises in the values of the investments in the quoted portfolio and further transfers of investments from unquoted to quoted share portfolio should occur in 2005 subject to Stock Market conditions not deteriorating significantly.

The greater value and number of the quoted investments should allow Billam’s management increased flexibility in the future, by giving more options for asset reallocation, broader security for any borrowings and less reliance on any one share holding. The flexibility should continue to develop as more investments become quoted.

Communications

Billam continues to develop the information and data provided to its shareholders and others, and to offer regular updates using the London Stock Exchange RNS service, the Company’s website: www.billamplc.co.uk, emails to individuals who register on the website and through brokers’ notes and press releases.

Angus Forrest
Chief Executive
11 February 2005

QUOTED PORTFOLIO

Cybit Holdings plc (AIM)	Telematic Service Provider	
Equity Ownership	11.3%	Cybit is one of the UK's leading telematics service providers. In 2004 Cybit announced significant developments of its business with the introduction of new services including the industry's first fully modular internet based telematics solution and the acquisition of Mapamobile mobile location service. New business wins include Sainsbury Home Delivery, Alfred McAlpine and Marshalls Plc, appointment of new resellers and a partnership with Norwich Union Insurance
Valuation (£'000)	1,644	
Cost (£'000)	415	
Valuation based on market value Cost – Original cost net of realisations		

EiRx Therapeutics plc (AIM)	Pre-Clinical Therapeutics	
Equity Ownership	<1%	EiRx Therapeutics discovers and validates genes involved in apoptosis (a regulated series of events that occur in human cells and results in their death) which is a major factor in the control of many illnesses including cancers and inflammatory diseases. In doing so, EiRx Therapeutics creates intellectual property that it out-licenses or otherwise exploits. In the year EiRx Therapeutics announced the first success milestone in its contract with OSI Pharmaceuticals Inc, also an agreement with Biofocus Plc, a world leader in collaborative drug discovery to help accelerate the discovery of anti-cancer drugs by EiRx Therapeutics. In January 2004 EiRx Therapeutics floated on AIM
Valuation (£'000)	3	
Cost (£'000)	2	
Valuation based on market value for shares held direct and excluding those held via EiRx Pharma Ltd Cost – Original cost net of realisations		

Intellego Holdings plc (AIM)	e-Learning Solutions Provider	
Equity Ownership	4%	Intellego is a workforce training and support services business and retailer of e-learning computer software. It provides solutions to facilitate in-house clearing on IT related projects, as well as non-IT such as regulation, compliance, product information and demonstration. The target market is large commercial and governmental organisations. In its first year of operation Intellego secured business from 48 different organisations spread across a wide range of markets.
Valuation (£'000)	67	
Cost (£'000)	60	
Valuation based on market value Cost – Original cost		

IVU Traffic Technologies AG (Frankfurt Stock Exchange)	Telematic Software Developer	
Equity Ownership	<1%	IVU is a leading, Berlin based, developer of software for telematic solutions and logistics. 2004 has seen continued consolidation and concentration on financial performance of the business. In the year new versions of existing products were introduced and IVU increased its share in its market. The directors anticipate the return to profitable trading in 2005
Valuation (£'000)	25	
Cost (£'000)	407	
Valuation based on market value Cost – Original cost		

BILLAM PLC

PORTFOLIO REVIEW

Physiomics plc (AIM)		Computer Simulation of Cells – Systems Biology
Equity Ownership	1.7%	Physiomics has developed computer software that allows it to supply simulations customised to proprietary pharmaceutical development projects. This should lead to improved productivity and substantially reduced costs of drug development and faster time to market. Ultimately, the use of systems biology and simulations could enable truly personalised medicine. In July 2004 Physiomics entered into a technology alliance with Bayer Technology Services GmbH, which has developed a highly sophisticated Physiology-based Pharmaceutical modelling system. On 20 December 2004 Physiomics shares were floated on AIM.
Valuation (£'000)	184	
Cost (£'000)	159	
Valuation based on market value for shares held direct and excluding shares held via EiRx Pharma Ltd Cost – Original cost		

Sareum plc (AIM)		Drug Discovery Service
Equity Ownership	1.9%	Sareum has developed a fast-track pre-clinical drug discovery process using a combination of skills in biology, combination of chemistry and high-throughput chemical synthesis. Also by using its expertise in the structure-based drug discovery to develop high-value clinical candidates for partnering with pharmaceutical companies. Sareum announced five collaboration agreements in November and December. Sareum's shares were admitted to AIM in October 2004.
Valuation (£'000)	154	
Cost (£'000)	55	
Valuation based on market value Cost – Original cost		

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PORTFOLIO REVIEW

UNQUOTED PORTFOLIO

Arakis Limited		Developer of Performance Enhanced Medicine
Equity Ownership	<1%	In March Arakis acquired Sirius Pharmaceuticals Ltd in a share for share exchange. Arakis is an emerging speciality pharmaceutical company, with a commercial focus in inflammatory diseases and oncology adjunctive therapy. It possesses a unique research capability specialising in cytokine and receptor mediated mechanisms of disease. Arakis identifies, develops and commercialises product opportunities based upon new clinical uses for known drugs, or known drug templates, termed Performance Enhanced Medicines (PEMs). It has three drugs in Phase II trials. In September 2004 Arakis announced it had raised £29 million from a syndicate of existing and new investors.
Valuation (£'000)	164	
Cost (£'000)	141	
Valuation based on merger March 2004		

Autonomics Limited		Financial Modelling and Database Management
Equity Ownership	10%	Autonomics was formed in 2000 to develop and commercialise financial software products for multinational companies and investment banks.
Valuation (£'000)	50	
Cost (£'000)	506	
Valuation based on directors' valuation		

EiRx Pharma Limited		Holding Company
Equity Ownership	39%	EiRx Pharma owned 100% of EiRx Therapeutics Limited and Physiomics Limited prior to those companies shares being admitted to trading on AIM. It is EiRx Pharma's intention to distribute its shareholding to its own shareholders, (including Billam Plc).
Valuation (£'000)	4,389	
Cost (£'000)	2,700	
Valuation based on value of underlying investments		A description of each investee is shown in the quoted portfolio section.

Inaplex Limited		Database and Integration Tools
Equity Ownership	6%	Inaplex signed its first contract with a leading CRM software vendor to bundle Inaplex software with a market leading product. This should lead to further opportunities for bundling Inaplex software. The royalties from the first contract should provide finance for the next stage of Inaplex's development.
Valuation (£'000)	67	
Cost (£'000)	67	
Valuation based on cost		

TMO Biotec Limited		Bio-ethanol and Bio-diesel Production Technology
Equity Ownership	2%	TMO Biotec plans to prove its world leading technology in a commercial pilot plant by the end of March 2005. The technology using thermophiles is predicted to be up to 50% more efficient than current technologies at producing bio-ethanol and bio-diesel. It can be retrofitted to existing plants to provide an instant turnkey solution offering major gains in efficiency for current operators in these fast expanding markets.
Valuation (£'000)	114	
Cost (£'000)	114	
Valuation based on cost		

Trimex Group Limited		Telematics - Security
Equity Ownership	2%	Trimex signed its first deal with a car maker, Mercedes Benz. Mercedes are rolling out the services throughout Europe starting in Poland. The commercial vehicle service has entered its second year and is achieving renewal rates of 80% whilst also winning new customers. Trimex' top-end product EFS was discontinued in July because the newer lower cost services had effectively made this premium service redundant. Development on the new part load-monitoring product continues with leading industrial partners.
Valuation (£'000)	1,001	
Cost (£'000)	1,001	
Valuation based on cost		

BILLAM PLC

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report, together with the consolidated financial statements of the Group for the year ended 31 December 2004.

Principal activity and business review

The Company is registered as a Public Limited Company in terms of the Companies Act 1985. The Company's shares of 10p each are listed on the Alternative Investment Market (AIM) of the London Stock Exchange.

The principal activity of the Group is as an investment company investing in quoted and unquoted companies to achieve capital growth

The Company does not qualify as an investment company within the meaning of the Companies Act 1985. Normally the absence of Section 266 status would require the Company to adopt a different presentation of the accounts from that recommended by the Association of Investment Trust companies. However, the directors believe it would be misleading for the format of accounts to be changed as this would unnecessarily obscure and distort both the revenue and capital performance of the Company. The Group has adopted the Statement of Recommended Practice (SORP) for Investment Trusts (January 2003), the Group's accounts have been prepared in accordance with this SORP.

A review of the activity and progress of the business including the portfolio of investments is contained in the Chairman's statement and the Chief Executive's report.

Subsidiary undertakings

The subsidiaries of the Company are investment companies.

Corporate governance and compliance

The Company is committed to applying the principles of corporate governance as applicable to a company of this size and nature. The Board is accountable to the Company's shareholders for good corporate governance. This report and the Remuneration Report describe how the Company applies the provisions of good corporate governance.

Directors

The Company supports the concept of an effective Board leading and controlling the Company. The Company's Board meets regularly and special meetings are convened as and when matters require urgent consideration. The Board is responsible for approving Company policy and strategy and there is a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the directors are free to seek any further information they consider necessary. All directors have access to advice from the Company Secretary and independent professionals at the Company's expense.

The Board consists of one executive director and two non-executive directors. Both the non-executive directors are independent of management and any business or other relationship which could interfere with the exercise of their independent judgment. The Board considers that the level of shareholdings and share options held by the non-executive directors is insufficient to affect their independence. This structure provides a balance whereby the Board's decision making should not be dominated by an individual or small group. The Chairman of the Board is Victor Beamish and the Group business is run by Angus Forrest, the Chief Executive.

BILLAM PLC

REPORT OF THE DIRECTORS

The Board members are listed on page 3.

All directors are subject to re-election every three years and at the first Annual General Meeting (AGM) after appointment.

Relations with shareholders

Investor communication is recognised as being a priority. The Company values the views of its shareholders and recognises their interest in the Company's strategy and performance, Board membership and quality of management. It therefore encourages shareholders to offer their views.

The AGM provides an opportunity for shareholders, particularly private investors, to question the Board on issues arising. During the year enquiries are received and answered on a wide spectrum of topics relevant to the business.

All shareholders can gain access to the Company's presentations, as well as to the annual report and other information about the Company through the Company's website www.billamplc.co.uk.

The notice convening the AGM is the notice of the meeting sent to shareholders with this report. A separate motion will be put to the meeting on each substantial issue.

The notice for the 2005 AGM will be dispatched more than 21 working days in advance and the level of proxy votes lodged for and against each resolution will be disclosed at the meeting together with details of any abstentions.

Accountability and audit

The Board endeavours to present a balanced and understandable assessment of the Company's position and prospects in all reports as well as in the information required to be presented by statutory requirements.

The Audit Committee comprises Victor Beamish and Juliet Hoskins, both of whom are independent non-executive directors. The terms of reference of the Committee include keeping under review the scope and results of the external audit and its cost effectiveness. The Committee reviews the independence and objectivity of the external auditors taking into consideration relevant UK professional and regulatory requirements. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Company, seeking to balance objectivity and value for money.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has access to adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. Such a system is designed to manage, but not eliminate, the risk of failure to achieve business objectives. There are inherent limitations in any control system and accordingly even the most effective systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Assessment of business risk

The Board regularly reviews operating and strategic risks.

BILLAM PLC

REPORT OF THE DIRECTORS

The Group's operating procedures include a system for reporting financial and non-financial information to the Board including:

- Reports from management with review of the business at each Board meeting, focusing on any new decisions/risks arising
- Reports on the performance of investments
- Reports on selection criteria of new investments
- Discussion with senior personnel
- Consideration of reports prepared by third parties
- Preparation of plans for business development
- Preparation and review of annual budgets.

Control procedures

Operational procedures have been developed for each of the Group's operating businesses that embody key controls over relevant areas. The implications of changes in law and regulations are taken into account by the Group.

The Board has considered the need for an internal audit function but has decided that this is not justified at present given the size of the Group. However, it will keep the decision under review on at least an annual basis.

Appointment of directors

The Board deals with all matters relating to the appointment of directors including determining the specification, identifying suitable candidates and selection of the appointee. No separate Nominations Committee has been formed.

Throughout the year the Articles of Association have required each director to seek re-election after no more than three years in office. Therefore the Board considers it inappropriate that directors be appointed for a fixed term as recommended by the Code.

Results and dividends

The net deficit of the Group for the year after taxation amounted to £4,300,000 (2003: return £1,221,000). The directors do not recommend the payment of a dividend for the year ended 31 December 2004.

Assets

The net assets of the Group at 31 December 2004 totalled £7,143,000 (2003: £10,715,000). The net assets per ordinary share as at 31 December 2004 were 34.7p (2003: 65.3p).

Policy for paying creditors

The Company's policy is to pay creditors in accordance with agreed payment terms. Trade creditors at the year end amount to 20 days of average supplies.

BILLAM PLC

REPORT OF THE DIRECTORS

Significant shareholdings

According to the Company's register of substantial shareholdings at 7 February 2005, the following had notified the Company of their interest in 3% or more of the Company's issued ordinary share capital:

	Number of shares	%
A G P Forrest	2,146,415	10.7
Forest Nominees Ltd	1,893,175	9.4
BarclayShare Nominees Limited	916,905	4.3
W Weston	950,000	4.2
V N Beamish	681,315	3.4

Directors and secretary

The directors of the Company who served during the year are listed on page 3.

Victor Beamish retires by rotation in accordance with the Articles of Association and, being eligible, offers himself for re-appointment.

Those directors who held office at the year end had the following interests in the shares of the Company, which include beneficial and family interests.

	As at 31 December 2004 Ordinary shares of 10p	As at 1 January 2004 Ordinary shares of 10p
V N Beamish	681,315	155,000
A G P Forrest	2,146,415	1,620,100
J A Hoskins	52,300	52,300

There have been no changes in these interests between 31 December 2004 and 11 February 2005. All the above interests are beneficial.

Details of director's share options are given in the report on remuneration on pages 36 to 38.

The directors had no other interests in the shares of the Company.

The Company has no contracts with any of the directors, save for a service contract with Mr Forrest. Details of directors' remuneration are shown in the report on remuneration on pages 36 to 38.

The other directors hold office in accordance with letters of appointment and the Company's Articles of Association.

Taxation status

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

BILLAM PLC

REPORT OF THE DIRECTORS

Directors' responsibilities for the financial statements

Company law in the United Kingdom 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 the Group and of the profit or loss of the Company and the Group 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

The maintenance and integrity of the website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters.

Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

A G P Forrest
Director
11 February 2005

We have audited the financial statements of Billam Plc for the year ended 31 December 2004 which comprise the consolidated statement of total return, the balance sheets, the consolidated cash flow statement, the principal accounting policies, notes 1 to 28 and specified parts of the remuneration report. 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 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 auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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 or the listing rules regarding directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the annual report (including the corporate governance statement), and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's statement, the Chief Executive's report, the portfolio review, the report of the directors and the report on remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures. Our responsibilities do not extend to any other information.

Basis of 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, 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 the Group as at 31 December 2004 and of the deficit for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

SHEFFIELD
11 February 2005

The maintenance and integrity of the Billam plc website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

BILLAM PLC**CONSOLIDATED STATEMENT OF TOTAL RETURN (incorporating the revenue account)**

For the year ended 31 December 2004

	Note	2004 £'000 Capital	2004 £'000 Revenue	2004 £'000 Total	2003 £'000 Capital	2003 £'000 Revenue	2003 £'000 Total
(Losses)/gains on investments	8	(4,071)	-	(4,071)	2,193	-	2,193
Income	1	-	60	60	-	239	239
Gross revenue and capital (deficit)/return		(4,071)	60	(4,011)	2,193	239	2,432
Administrative expenses	2	-	(622)	(622)	-	(871)	(871)
Net (deficit)/return before exceptional items, finance costs and taxation		(4,071)	(562)	(4,633)	2,193	(632)	1,561
Loss on sale of subsidiary		-	-	-	(116)	-	(116)
Interest payable and similar charges	3	-	(3)	(3)	-	(6)	(6)
(Deficit)/return on ordinary activities before taxation		(4,071)	(565)	(4,636)	2,077	(638)	1,439
Tax on ordinary activities	5	764	(428)	336	(339)	121	(218)
(Deficit)/return attributable to equity shareholders	7, 17	(3,307)	(993)	(4,300)	1,738	(517)	1,221
(Deficit)/return per ordinary share							
Basic and fully diluted	7	(18.4p)	(5.6p)	(24.0p)	12.7p	(3.8p)	8.9p

The return per ordinary share is based on the weighted average number of ordinary shares in issue during the year of 17,945,924 ordinary shares of 10 pence (2003: 13,624,235 ordinary shares of 10 pence).

The revenue column of this statement forms the basis of the profit and loss of the Group as shown in Note 28.

All of the above results arise from continuing activities.

The accompanying accounting policies and notes form an integral part of these financial statements.

There are no recognised gains and losses for the year other than those reflected in the above Statement of Total Return.

BILLAM PLC

BALANCE SHEETS AT 31 DECEMBER 2004

	Note	Group		Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets					
Investments	8	7,864	11,798	7,864	11,987
Current assets					
Debtors	11	201	137	201	137
Cash at bank and in hand		47	158	47	156
		248	295	248	293
Creditors: amounts falling due within one year	12	(57)	(143)	(57)	(1,431)
Net current assets/(liabilities)		191	152	191	(1,138)
Total assets less current liabilities		8,055	11,950	8,055	10,849
Creditors: amounts falling due after more than one year	13	(912)	(899)	(912)	(899)
Provision for liabilities and charges	14	-	(336)	-	(264)
		7,143	10,715	7,143	9,686
Capital and reserves					
Called up share capital	16	2,170	1,775	2,170	1,775
Share premium account	17	5,389	5,056	5,389	5,056
Other reserves					
Capital reserve realised	17	(957)	(886)	(584)	(448)
Capital reserve unrealised	17	1,614	4,850	1,587	3,160
Merger reserve	17	1,736	1,736	1,012	1,736
Revenue account	17	(2,809)	(1,816)	(2,431)	(1,593)
Shareholders' funds	19	7,143	10,715	7,143	9,686
Total shareholders' funds are attributable to:					
Equity shareholders		6,985	10,557		
Non-equity shareholders		158	158		
		7,143	10,715		
Net asset value per share					
Ordinary shares	18	34.7p	65.3p		
Deferred shares	18	0.1p	0.1p		

The net asset value per ordinary share is based on net assets at the year end and on 20,119,680 ordinary shares of 10 pence (2003: 16,172,312 ordinary shares of 10 pence) being the number of ordinary shares in issue at the year end.

The financial statements were approved by the Board of Directors on 11 February 2005.

A G P Forrest

Director

V N Beamish

Chairman

The accompanying accounting policies and notes form an integral part of these financial statements.

BILLAM PLC**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31 December 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Net cash outflow from operating activities	20		(699)		(817)
Returns on investment and servicing of finance					
Interest paid		<u>(3)</u>		<u>(6)</u>	
Net cash outflow from returns on investment and servicing of finance			(3)		(6)
Capital expenditure and financial investment					
Purchase of investment in subsidiary		-		(17)	
Purchase of investments		(929)		(1,027)	
Sale of investments		<u>792</u>		<u>776</u>	
Net cash outflow from capital expenditure and financial investment			(137)		(268)
Net cash outflow before financing			(839)		(1,091)
Financing					
Issue of share capital		728		846	
Receipt of borrowings		<u>-</u>		<u>397</u>	
Net cash inflow from financing			728		1,243
(Decrease)/increase in cash in the year	22		(111)		<u>152</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

BILLAM PLC

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies of the Group remain unchanged from the previous year. The Group accounting policies are set out below.

BASIS OF ACCOUNTING

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investment assets. The accounts have been prepared in accordance with applicable accounting standards, except as explained below, and with the Statement of Recommended Practice (SORP), for the Financial Statements of Investment Trust Companies (January 2003) (see note 28).

The financial statements have been prepared on the going concern basis. The directors, having considered the cash forecasts for the next 12 months, have a reasonable expectation that the funds available to the group are sufficient to meet the requirements indicated by those forecasts.

STATEMENT OF RECOMMENDED PRACTICE (SORP), FOR THE FINANCIAL STATEMENTS OF INVESTMENT TRUST COMPANIES

The Company is not an investment company within the meaning of Section 266, Companies Act 1985 as the Articles of the Company do not absolutely prohibit the distribution of capital profits. However, it manages its affairs in a manner which is similar to that of an Investment Trust. As such, the directors consider it appropriate to continue to present the financial statements in accordance with the Statement of Recommended Practice (SORP) applicable for investment trusts. Under the SORP, the financial performance of the Group is presented in a statement of total return in which the revenue column would be the profit and loss account of the Group except that it excludes net gains and losses on disposal and write off of investments and associated taxation.

In the opinion of the directors the inclusion of these items in the profit and loss account would obscure and distort both the revenue and capital performance of the Group, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet.

BASIS OF CONSOLIDATION

The consolidated statement of total return and the consolidated balance sheet includes the financial statements of the Company for the year ended 31 December 2004 and the financial statements of the subsidiary undertakings for the year ended 31 December 2004.

The results of subsidiaries acquired are included in the consolidated statement of total return from the date control passes and subsidiary undertakings sold or otherwise disposed of are consolidated up to the effective dates of disposal. Profits or losses on intra-group transactions are eliminated in full.

GOODWILL

Goodwill arising on consolidation representing the excess of fair value of the consolidation given over the fair value of net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life. Negative goodwill is written back to the statement of total return to match the recovery of the non-monetary assets acquired.

INVESTMENTS

Investments in subsidiaries are carried at cost less amounts written off.

BILLAM PLC

PRINCIPAL ACCOUNTING POLICIES

Other investments are carried in accordance with the guidelines issued by the British Venture Capital Association.

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to capital reserve - realised, and unrealised surpluses and deficits on the revaluation of investments are taken to capital reserve - unrealised, as explained in the capital reserve policy below.

INVESTMENT VALUATION

Listed investments

Investments which are listed on a stock market such as AIM or similar markets are valued at their closing mid-price.

Where listed investments are subject to restrictions on sale or the marketability of the holding is limited then a discount to the listed market price may be applied.

Unlisted shares

Valuation methods used are either costs or where appropriate fair value in accordance with the British Venture Capital Association (BVCA) guidelines.

In estimating fair value for an investment methodology is applied that is appropriate in light of the nature, facts and circumstances of the Investment and its materiality in the context of the total investment portfolio. In applying these methodologies an assessment is made as to whether the methodology should be considered primary or secondary:

Methodology	Category
Earnings multiple	Primary
Price of recent investment	Primary
Net assets	Primary
Discounted cash flows or earnings of business	Secondary
Discounted cash flows of investment	Secondary*
Industry valuation benchmarks	Secondary

*Primary where realisation or flotation is imminent

For investments in start up or early-stage businesses, the "Price of Recent Investment" methodology is the most appropriate for a limited period following the date of investment. Thereafter the fair value is measured using any of the primary or secondary methodologies, or any other methodologies. If fair value cannot be reliably measured then a provision is made.

In the course of this review, increases above cost based valuations of unquoted investments are, in normal circumstances, only made if substantiated by significant third party transactions in relevant shares.

INCOME

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date.

Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established.

BILLAM PLC

PRINCIPAL ACCOUNTING POLICIES

Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the shares. Other returns on non-equity shares are recognised when the right to the return is established.

The fixed return on a debt security is recognised on a time apportionment basis so as to reflect the effective yield on the debt security. Where the Company has elected to receive its dividends in the form of additional shares rather than in cash, the amount of the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital reserves.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost, less estimated residual value, of all tangible assets, by equal annual instalments over their expected useful economic lives. The rates generally applicable are:

Fixtures and fittings	33 1/3%
Office equipment	33 1/3%

LEASED ASSETS

Payments made under operating leases are charged to the revenue account on a straight line basis over the lease term.

EXPENSES

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment; and
- expenses are charged to capital reserve-realised where a connection with the maintenance or enhancement of the value of the investments can be demonstrated.

TAXATION

The tax effect of different items of income/gain and expenditure/loss is allocated between capital and revenue on the same basis as the particular item to which it relates using the Group effective rate of tax for the accounting period.

FOREIGN CURRENCY

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as at the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in capital reserve or in the revenue account depending on whether the gain or loss is of a capital or revenue nature respectively.

BILLAM PLC

PRINCIPAL ACCOUNTING POLICIES

RETIREMENT BENEFITS

Defined Contribution Pension Scheme

The pension costs charged against operating profits are the contributions payable to the scheme in respect of the accounting period.

CAPITAL RESERVE

Capital reserve - realised

The following are accounted for in this reserve:

- gains and losses on the realisation of investments;
- realised exchange differences of a capital nature;
- expenses and finance costs, together with the related taxation effect, charged to this reserve in accordance with the above policies;
- realised gains and losses on transactions undertaken to hedge an exposure of a capital nature; and
- permanent impairments in the value of investments.

Capital reserve - unrealised

Increases and decreases in the valuation of investments held at the year end are accounted for in this reserve.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

1 INCOME

	2004 £'000 Revenue	2003 £'000 Revenue
Total income comprises:		
Bank deposit interest	4	1
Other income	<u>56</u>	<u>238</u>
	<u>60</u>	<u>239</u>
Other income		
Management fees	23	206
Other	<u>33</u>	<u>32</u>
	<u>56</u>	<u>238</u>

2 ADMINISTRATIVE EXPENSES

Administrative expenses includes the following:

	2004 £'000 Revenue	2003 £'000 Revenue
Auditors' remuneration for		
- statutory audit	17	20
- tax compliance	9	4
- tax advisory	9	6
- other services	4	4
Depreciation:		
- tangible fixed assets, owned	-	24
Other operating lease rentals - land and buildings	56	56
Release of negative goodwill on disposal	<u>-</u>	<u>(94)</u>

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000 Revenue	2003 £'000 Revenue
On director's loans	<u>3</u>	<u>6</u>

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2004 £'000 Revenue	2003 £'000 Revenue
Wages and salaries	222	183
Social security costs	16	5
Pension costs	12	13
Ex-gratia payment	-	8
	<u>250</u>	<u>209</u>

The average number of employees (including directors) of the Group were:

	2004 Number	2003 Number
Management of investments	<u>4</u>	<u>5</u>

Further details of individual directors' remuneration, pension fund and share options are shown in the report on remuneration on pages 36 to 38.

5 TAX ON ORDINARY ACTIVITIES

The tax credit / (charge) for the year is made up as follows:

	2004 £'000 Capital	2004 £'000 Revenue	2004 £'000 Total	2003 £'000 Capital	2003 £'000 Revenue	2003 £'000 Total
Deferred tax (see note 14)	<u>764</u>	<u>(428)</u>	<u>336</u>	<u>(339)</u>	<u>121</u>	<u>(218)</u>

The current tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained as follows:

	2004 £'000 Capital	2004 £'000 Revenue	2004 £'000 Total	2003 £'000 Capital	2003 £'000 Revenue	2003 £'000 Total
(Deficit)/return on ordinary activities before taxation	<u>(4,071)</u>	<u>(565)</u>	<u>(4,636)</u>	<u>2,077</u>	<u>(638)</u>	<u>1,439</u>
(Deficit)/return on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(1,221)	(170)	(1,391)	623	(191)	432
Effect of:						
Expenses not deductible for tax	-	15	15	-	53	53
Deductions allowable for tax	(1)	-	(1)	(4)	-	(4)
Capital items relievable as revenue	-	-	-	20	(20)	-
Capital losses brought forward utilised	(58)	-	(58)	-	-	-
Short term timing differences	-	(11)	(11)	-	43	43
Unrealised profit not chargeable to tax	-	-	-	(639)	-	(639)
Unrealised loss not allowable for tax	1,163	-	1,163	-	-	-
Unused tax losses carried forward	<u>117</u>	<u>166</u>	<u>283</u>	<u>-</u>	<u>115</u>	<u>115</u>
Current tax charge	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

6 RETURNS FOR THE FINANCIAL YEAR

The Parent Company has taken advantage of Section 230 of the Companies Act 1985 and has not included its own Statement of Total Returns in these financial statements. The Group deficit attributable to ordinary shareholders includes a deficit of £2,547,000 (2003: a return of £2,341,000) which is dealt with in the financial statements of the Company.

7 (DEFICIT)/RETURN PER ORDINARY SHARE

The (deficit)/return per ordinary share is based on the weighted average number of ordinary shares in issue during the year of 17,945,924 ordinary shares of 10 pence (2003: 13,624,235 ordinary shares of 10 pence) and the following figures:

	2004	2004	2004	2003	2003	2003
	£'000	£'000	£'000	£'000	£'000	£'000
	Capital	Revenue	Total	Capital	Revenue	Total
(Deficit)/return attributable to equity shareholders	<u>(3,307)</u>	<u>(993)</u>	<u>(4,300)</u>	<u>1,738</u>	<u>(517)</u>	<u>1,221</u>
(Deficit)/return per ordinary shares	<u>(18.4p)</u>	<u>(5.6p)</u>	<u>(24.0p)</u>	<u>12.7p</u>	<u>(3.8p)</u>	<u>8.9p</u>

All options outstanding during the year and at the year end were anti-dilutive.

8 INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Investments listed on a recognised investment exchange	2,077	3,961	2,077	3,961
Subsidiary undertakings (note 10)	-	-	-	3,207
Other unlisted investments	5,787	7,405	5,787	4,819
Loans	-	432	-	-
	<u>7,864</u>	<u>11,798</u>	<u>7,864</u>	<u>11,987</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

8

INVESTMENTS (CONTINUED)

Group	Listed UK £'000	Listed overseas £'000	Other unlisted investments £'000	Loans £'000	Total £'000
Cost					
At 1 January 2004	454	407	5,012	432	6,305
Additions	621	-	308	-	929
Reclassifications	70	-	(70)	-	-
Sales					
- proceeds	(652)	-	(99)	(41)	(792)
- realised gains/(losses) on sales/liquidations	199	-	-	(391)	(192)
At 31 December 2004	<u>692</u>	<u>407</u>	<u>5,151</u>	<u>-</u>	<u>6,250</u>
Unrealised appreciation/(depreciation)					
At 1 January 2004	3,460	(360)	2,393	-	5,493
Decrease in unrealised appreciation	(2,100)	(22)	(1,757)	-	(3,879)
At 31 December 2004	<u>1,360</u>	<u>(382)</u>	<u>636</u>	<u>-</u>	<u>1,614</u>
Cost or valuation					
At 31 December 2004	<u>2,052</u>	<u>25</u>	<u>5,787</u>	<u>-</u>	<u>7,864</u>
At 31 December 2003	<u>3,914</u>	<u>47</u>	<u>7,405</u>	<u>432</u>	<u>11,798</u>

All unlisted investments and loans are to UK companies. Overseas listed investments are held in Europe.

Further details of these investments are given in the portfolio review on pages 6 to 8.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

8 INVESTMENTS (CONTINUED)

Company	Listed £'000	Listed overseas £'000	Subsidiary undertakings £'000	Other unlisted investments £'000	Total £'000
Cost					
At 1 January 2004	454	407	3,908	3,863	8,632
Fully provided/written off	-	-	(1,425)	-	(1,425)
Additions	621	-	140	1,357	2,118
Reclassifications	70	-	-	(70)	-
Sales					
- proceeds	(652)	-	-	-	(652)
- realised gains on sales	199	-	-	-	199
At 31 December 2004	<u>692</u>	<u>407</u>	<u>2,623</u>	<u>5,150</u>	<u>8,872</u>
Unrealised appreciation / (depreciation)					
At 1 January 2004	3,460	(360)	(701)	956	3,355
Fully provided/written off	-	-	701	-	701
(Decrease)/increase in unrealised appreciation	(2,100)	(22)	-	(319)	(2,441)
At 31 December 2004	<u>1,360</u>	<u>(382)</u>	<u>-</u>	<u>637</u>	<u>1,615</u>
Amounts due to subsidiaries	-	-	(2,623)	-	(2,623)
Cost or valuation					
At 31 December 2004	<u>2,052</u>	<u>25</u>	<u>-</u>	<u>5,787</u>	<u>7,864</u>
At 31 December 2003	<u>3,914</u>	<u>47</u>	<u>3,207</u>	<u>4,819</u>	<u>11,987</u>
		Group		Company	
		2004	2003	2004	2003
		£'000	£'000	£'000	£'000
Net (losses)/gains on sales or liquidations		(192)	132	199	(291)
Net (decrease)/increase in unrealised appreciation		(3,879)	2,061	(2,441)	4,069
Amount written off subsidiaries		-	-	(724)	-
(Loss)/gain on investments		<u>(4,071)</u>	<u>2,193</u>	<u>(2,966)</u>	<u>3,778</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

9 SIGNIFICANT INTERESTS

Details of investments other than subsidiary undertakings in which the Group has a holding of 3% (including more than 10%) or more that are material in the context of the financial statements:

	Country of incorporation	Percentage of share capital held %	Total cost £'000	Carrying value at 31 December 2004 £'000	Carrying value at 31 December 2003 £'000
Listed investments					
CybIT Holdings plc	United Kingdom	11.3	415	1,644	3,914
Intellego Holdings Plc	United Kingdom	4.0	60	67	-
Unlisted Investments					
Autonomics Limited	United Kingdom	10.0	506	50	506
Inaplex Limited	United Kingdom	6.0	67	67	67
EiRx Pharma Limited	United Kingdom	39.2	2,700	4,389	5,713

The directors consider that the conditions required to categorise an investment as an associated undertaking are not met in respect of EiRx Pharma Limited as the investment is held as part of the Group's investment portfolio. The Group does not seek to influence the day to day management of the companies in which its investments are made.

10 SUBSIDIARY UNDERTAKINGS

At 31 December 2004 the subsidiary undertakings were as follows:

	Country of incorporation	Class of share capital held	Proportion held by Parent Company	Proportion held by the Group	Nature of business
World Life Sciences Limited	United Kingdom	Ordinary	100%	100%	Dormant
URCO plc	United Kingdom	Ordinary	100%	100%	Dormant

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

11 DEBTORS

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Other debtors	58	28	58	28
Prepayments and accrued income	143	109	143	109
	201	137	201	137

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Amounts owed to group undertakings	-	-	-	1,301
Trade creditors	20	62	20	56
Social security and other taxes	6	10	6	10
Other creditors and accruals	31	71	31	64
	57	143	57	1,431

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Loan notes due to Billam AG	397	397	397	397
Other creditor - notice payment	85	135	85	135
Other creditors and accruals	354	293	354	293
Director's loan account	21	34	21	34
Pension contributions	55	40	55	40
	912	899	912	899

The amount due to Billam AG is an unsecured non-interest bearing loan, the total balance is repayable in 2013. All other creditors are due after one year and payable within two years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

14 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Taxation	
	Group	Company
	£'000	£'000
At 1 January 2004	336	264
Charged/(credited) during the year		
- revenue	428	269
- capital	(764)	(533)
At 31 December 2004	<u>-</u>	<u>-</u>

15 DEFERRED TAXATION

	Group		Company	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Timing differences related to capital	418	1,209	418	1,007
Losses available				
- capital	(418)	(445)	(390)	(446)
- revenue	-	(428)	(28)	(297)
	<u>-</u>	<u>336</u>	<u>-</u>	<u>264</u>

The movement in deferred tax is shown in note 14.

The Group has unrecognised deferred tax assets as a result of losses carried forward of £1,068,000 and the Company has unrecognised deferred tax assets of £614,000.

16 SHARE CAPITAL

	2004	2003
	£'000	£'000
Authorised		
38,420,500 ordinary shares of 10p each (2003: 38,420,500 ordinary shares of 10p each)	3,842	3,842
157,950,000 deferred shares of 0.1p each	158	158
	<u>4,000</u>	<u>4,000</u>
Allotted, called up and fully paid		
20,119,680 ordinary shares of 10p each (2003: 16,172,312 ordinary shares of 10p each)	2,012	1,617
157,950,000 deferred shares of 0.1p each	158	158
	<u>2,170</u>	<u>1,775</u>
Allotments during the year		

On 21 July 2004 3,947,368 ordinary shares of 10p per share were issued. This was to provide additional investment and working capital for the Company. The difference between the issue price of £750,000 and nominal value, net of costs, has been credited to the share premium account.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

16 SHARE CAPITAL (CONTINUED)

Deferred shares

The deferred shares, which are non-equity shares were issued as part of the re-organisation on 30 May 2000, have:

- no right to any dividend;
- the right to receive notice of any general meeting and to attend such meeting, but no right to vote there at; and
- the right on a winding up or other return of capital (after payment of the debts and liabilities of the Company and an amount equal to the amounts paid up, or credited as paid up, including any premium on the ordinary shares of the Company, together with any unpaid arrears of dividend declared on such shares) to an amount equal to the amounts paid up or credited as paid up on such deferred shares.

At 31 December 2004 options were exercisable over 1,050,000 ordinary shares of 10 pence (2003: 330,000 shares of 10p). The exercise prices of the options are 330,000 at 100p exercisable at any time prior to 28 February 2008 and 720,000 at 26p exercisable at any time prior to 25 February 2010. Subsequent to 31 December 2004 no options have been exercised.

17 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Merger reserve £'000	Revenue account £'000
Group					
At 1 January 2004	5,056	(886)	4,850	1,736	(1,816)
Premium on allotments during the year	333	-	-	-	-
Retained net revenue for the year	-	-	-	-	(993)
Net loss on realisation of investments	-	(326)	-	-	-
Transfer on disposal of investments	-	134	(134)	-	-
Transfer on previous disposal of investments	-	121	(121)	-	-
Net change in unrealised appreciation	-	-	(3,745)	-	-
Tax effect of capital items	-	-	764	-	-
At 31 December 2004	5,389	(957)	1,614	1,736	(2,809)
	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Merger reserve £'000	Revenue account £'000
Company					
At 1 January 2004	5,056	(448)	3,160	1,736	(1,593)
Premium on allotment during the year	333	-	-	-	-
Retained net revenue for the year	-	-	-	-	(838)
Net gain/(loss) on realisation of investments	-	65	-	(724)	-
Transfer on disposal of investment	-	134	(134)	-	-
Transfer on previous disposal of investments	-	(335)	335	-	-
Net change in unrealised appreciation	-	-	(2,307)	-	-
Tax effect of capital items	-	-	533	-	-
At 31 December 2004	5,389	(584)	1,587	1,012	(2,431)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

18 NET ASSET VALUE PER SHARE

The net asset value per share and the net asset values attributable to each class of share at the year end calculated in accordance with the Articles of Association were as follows:

	Net asset value per share		Net assets attributable	
	2004	2003	2004	2003
	p	p	£'000	£'000
Ordinary shares	34.7	65.3	6,985	10,557
Deferred shares	0.1	0.1	158	158
			<u>7,143</u>	<u>10,715</u>

The net asset value per ordinary share is based on net assets at the year end after allowances for the deferred shares and on 20,119,680 ordinary shares of 10 pence (2003:16,172,312 ordinary shares of 10 pence) being the number of ordinary shares in issue at the year end.

The net asset value per deferred share is based on net assets at the year end and on 157,950,000 deferred shares of 0.1p each (2003: 157,950,000) being the number of deferred shares in issue at the year end.

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004	2003
	£'000	£'000
Total recognised (losses)/gains for the year	(4,300)	1,221
New share capital subscribed	728	846
	<u>(3,572)</u>	<u>2,067</u>
Shareholders' funds at 1 January 2004	10,715	8,648
Shareholders' funds at 31 December 2004	<u>7,143</u>	<u>10,715</u>

20 RECONCILIATION OF OPERATING (DEFICIT)/ RETURN TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2004	2003
	£'000	£'000
Operating (deficit)/return	(4,633)	1,561
Depreciation	-	24
Release of negative goodwill	-	(94)
Loss on sale of subsidiary	-	(116)
Loss/(gain) on sale of investments	192	(132)
Unrealised decrease/(increase) in investment appreciation	3,879	(2,061)
(Increase)/decrease in debtors	(64)	69
Decrease in creditors	(73)	(68)
Net cash outflow from operating activities	<u>(699)</u>	<u>(817)</u>

21 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2004 £'000	Cash flow £'000	At 31 December 2004 £'000
Cash at bank and in hand	158	(111)	47
Loan notes	(397)	-	(397)
	<u>(239)</u>	<u>(111)</u>	<u>(350)</u>

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004 £'000	2003 £'000
(Decrease)/increase in cash in the year	(111)	152
Loan note issued in the year	-	(397)
Change in net funds resulting from cash flows	<u>(111)</u>	<u>(245)</u>
Net funds at 1 January 2004	<u>(239)</u>	<u>6</u>
Net debt at 31 December 2004	<u>(350)</u>	<u>(239)</u>

23 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 31 December 2004 there was a contingent commitment of £100,000 in respect of a guarantee for Trimex Group Limited.

24 RETIREMENT BENEFITS

Defined Contribution Pension Scheme

The Group operates a defined contribution scheme for the benefit of certain employees and directors. The assets of the scheme are administered by trustees in a fund independent from those of the Group.

25 COMMITMENTS UNDER OPERATING LEASES

There were annual commitments under operating leases expiring as follows:

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Land and buildings				
In five years or more	<u>57</u>	<u>55</u>	<u>57</u>	<u>55</u>

26 TRANSACTIONS WITH RELATED PARTIES

The Company has taken advantage of the exemption in FRS 8 and has not disclosed transactions with other members of the Group.

In October 2002 and March 2003 Angus Forrest provided a short term loan of £255,000 to the Company. The amount outstanding at the year end was £20,500. Interest accrued during the year was £3,000.

On 21 July 2004 the Company issued and allotted 526,315 ordinary shares of 10 p each to Angus Forrest for £100,000 cash and 526,315 ordinary shares of 10p each to Victor Beamish as participants in a placing to raise £750,000 gross of costs.

In relation to finding new investors for the placing in July 2004 the Company paid Leopard Rock Capital Limited, a business in which Mr Beamish is a director and a shareholder, a fee of £15,000.

27 FINANCIAL INSTRUMENTS AND RISK PROFILE

The Group's financial instruments comprise its investment portfolio, cash balances and debtors and creditors that arise directly from its operations. The Group does not use derivative instruments. The numerical disclosure below excludes short term debtors and creditors.

The Group invests in securities for the long term. Accordingly the Group rarely trades investments in the short term. In rare circumstances listed investments may be sold to meet the Group's funding requirements.

The Group has little exposure to credit risk. Unlisted investments in the portfolio are subject to liquidity risk. This risk is taken into account by the directors when arriving at the valuation of these assets.

The principal risks the Group faces in its activities are:

- Interest rate risk
- Market price risk
- Foreign currency risk; and
- Liquidity risk.

The Board's policy for managing these risks is summarised below.

Interest rate risk

The group's financial liabilities are limited to a loan note of £397,000 (2003: £397,000) being repayable in 2013 and deferred shares of £158,000 (2003: £158,000). These financial liabilities are non-interest bearing.

Market price risk

The Group exposure to market price risk comprises monitoring movements in the value of its equity investments. Details of the investment policy are given in the Chief Executives report on page 4 and details of the portfolio are given in the portfolio review on pages 6 - 8.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

27 FINANCIAL INSTRUMENTS AND RISK PROFILE (CONTINUED)**Foreign currency risk**

The Group is exposed to foreign currency risk through its investments in securities listed on overseas stock markets and in unlisted companies based overseas. The Group does not normally hedge against foreign currency movements but takes account of the relative strengths and weaknesses of currencies in making investment decisions.

Liquidity risk

The Group has a substantial portfolio of listed investments which are readily realisable to meet funding requirements if necessary.

The Group's financial instruments comprises of the following:

Financial assets	2004		2003	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Investment portfolio	<u>7,864</u>	<u>7,864</u>	<u>11,798</u>	<u>11,798</u>

Financial liabilities

	2004		2004	
	Book value £'000	Fair value £'000	Book Value £'000	Fair Value £'000
Loan to Billam AG	<u>397</u>	<u>267</u>	<u>397</u>	<u>256</u>

The Group's exposure to foreign currencies through its investment in overseas securities is:

	2004 £'000	2003 £'000
Euro	<u>25</u>	<u>47</u>

28 INVESTMENT COMPANY STATUS

The Company is not an investment company within the meaning of Section 266, Companies Act 1985 as the Articles of the Company do not absolutely prohibit the distribution of capital profits. However, it manages its affairs in a manner which is similar to that of an Investment Trust. As such, the directors consider it appropriate to continue to present the financial statements in accordance with the Statement of Recommended Practice (SORP) applicable for investment trusts. Under the SORP, the financial performance of the Group is presented in a statement of total return. The revenue column excludes the following capital items which, since the Company is not an investment company, the Companies Act and accounting standards would ordinarily require to be included in the profit and loss account: net losses on disposal and write off of investments, calculated by reference to their previous carrying amount, of £192,000 (2003: loss £248,000) and management expenses and finance costs charged to capital, net of tax, of £nil. The net loss before tax of the group for the year was £1,185,000. In the opinion of the directors the inclusion of these items in the profit and loss account would obscure and distort both the revenue and capital performance of the Group, and would not show clearly the revenue profits emerging to be distributable by way of dividend. The directors therefore consider that these departures from the specific provisions of Schedule 4 of the Companies Act relating to the form and content of accounts for companies other than investment companies and these departures from accounting standards are necessary to give a true and fair view. The departures have no effect on total return or on the balance sheet.

BILLAM PLC

REPORT ON REMUNERATION

Directors' remuneration

The Board submits its directors' remuneration report for the year ended 31 December 2004. The following sections of the report have been audited: table of directors' remuneration and the table of directors' interests.

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain directors of the calibre necessary to maintain the Group's position as a market leader and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary.

The Remuneration Committee has responsibility for setting the Company's general policy on remuneration and also specific packages for individual directors. It carries out the policy on behalf of the Board.

The membership of the committee is as follows: Victor Beamish (Chairman) and Juliet Hoskins.

Both members are independent non-executive directors. Neither of them has any personal financial interest in the matters to be decided (other than as shareholders), potential conflicts of interest arising from cross-directorships nor any day-to-day involvement in running the business.

The Committee meets at least once a year. As well as considering conditions in the Group as a whole, it takes into account the position of the Company relative to other companies and is aware of what these companies are paying, though comparisons are treated with caution to avoid an upward ratchet in remuneration. The Committee consults the Chief Executive, has access to professional advice within the Company and obtains its own independent professional advice from outside the Company.

Main elements of remuneration

The three main elements of the executive director's remuneration package are basic annual salary, performance related bonus and share option incentives.

Basic annual salary

The executive director's basic salary is reviewed annually by the Committee. In deciding upon appropriate levels of remuneration the Committee believes that the Company should offer average levels of base pay reflecting individual responsibilities compared to similar jobs in comparable companies. Exceptional performance is rewarded through performance related pay. The executive director's basic salary was last reviewed on 16 December 2004.

Performance related bonus

A bonus scheme has been established which recognises the success of the business for which the executive director is responsible. For a bonus to be awarded, the business must meet pre-determined targets which are set by the Committee. The main bonus scheme is based on the Company's increase in net asset value after taking into account new share issues. The annual bonus payments are not pensionable.

BILLAM PLC

REPORT ON REMUNERATION

Options

Options have been granted to executives and directors. The granting of options ensures that the holders are incentivised to concentrate on growing shareholder value. The exercise of options is not dependent upon performance criteria.

Summary of Directors' remuneration (audited)

	Salary	Bonus	Aggregate emoluments	Total	Company contributions to money purchase pension scheme	
	2004	2004	2004	2003	2004	2003
	£'000	£'000	£'000	£'000	£'000	£'000
Executive						
A G P Forrest	135	19	154	135	12	12
Non-executive						
V N Beamish	30	-	30	19	-	-
J A Hoskins	12	-	12	10	-	-
	<u>177</u>	<u>19</u>	<u>196</u>	<u>164</u>	<u>12</u>	<u>12</u>

Executive director's pension arrangements

The Company contributes an amount equivalent to 9% of the executive director's basic salary into a money purchase scheme of his choice. No other earnings of or payments to the director is pensionable. There have been no changes in the terms of director's pension entitlements during the year. There are no unfunded pension promises or similar arrangements for directors.

The normal retirement age is 65.

Non-executive directors

The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association. Non-executive directors do not have a contract of service and are not eligible to receive pension contributions.

Directors' interests (audited)

The interests of the directors and their families in the ordinary shares of the Company are shown below,

Ordinary shares	As at 31 December 2004	As at 1 January 2004
	10p Ordinary shares	10p Ordinary shares
V N Beamish	681,315	155,000
A G P Forrest	2,146,415	1,620,100
J A Hoskins	<u>52,300</u>	<u>52,300</u>

Directors' interests (continued)**Share Options**

At 31 December 2004, the directors held the following options over shares in the Company:

	Number	Exercise price pence	Number	Exercise price pence
V N Beamish	40,000	100	150,000	26
A G P Forrest	250,000	100	500,000	26
J A Hoskins	40,000	100	70,000	26

All options were issued under an unapproved scheme. The options priced at 100 pence are exercisable at any time prior to 28 February 2008 and the options priced at 26 pence are exercisable at any time prior to 25 February 2010.

No serving director's share options were exercised or lapsed during the year. The share price at 31 December 2004 was 23 pence per 10p ordinary shares (2003: 23.5p per 10p ordinary share).

Other than shown above, no director had any interest in the shares of the Company or any of its subsidiaries at 31 December 2004 and there have been no changes in directors' interests since that date and the date of this report.

ON BEHALF OF THE BOARD

Victor Beamish
Director

11 February 2005