

BILLAM PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2005

Company Number: 00298654

BILLAM PLC

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Chairman's Statement

Background

Many investment companies were launched during the period 1998 to 2000 whose objective was principally to invest in technology companies. Most of these companies have ceased investment activity. Billam has invested in 17 companies that are broadly in the biotech, telematics and technology sectors of which four were sold, four ceased trading and of the remaining nine, six are quoted; five of which are on the AIM market of the London Stock Exchange.

The difficulties affecting these sectors have adversely impacted on investor confidence for smaller investment companies such as Billam and generally, the valuation of small research based and technology businesses included within our portfolio. These factors have held back Billam's share price and market capitalisation. Whilst I believe that the decision to invest in these sectors was soundly based, following the recent Extraordinary General Meeting, the Board will place more emphasis on investing in businesses that will generate revenue, cash flow and growth in value of the Company's assets by considering businesses that are less unpredictable in their respective areas of operation.

2005

The Board is disappointed to note that the company's net assets fell to £2.2m (2004: £7.1m) during the course of 2005 and as explained elsewhere in this statement it is taking appropriate measures to improve the position.

During 2005 there has been a drive to improve efficiency. Administrative costs have been reduced from £622,000 to £436,000 (after adjusting for an exceptional cost of £171,000 relating primarily to the share consolidation and subdivision and office move). The Board has agreed to move the offices again and to reduce the support staff in order to save more costs.

Company

The company was recently requested to hold an Extraordinary General Meeting which was held on 24 March 2006 to consider certain changes to the Board. Following this meeting the Board comprises Simon Bennett, Nishith Malde and myself. Simon was a senior investment banker prior to joining Billam and Nishith is a chartered accountant and was group finance director of fully listed company, Country & Metropolitan PLC, until it was taken over in April 2005. Angus Forrest and Juliet Hoskins are no longer on the Board and I should like to express my thanks to them for their contribution to the Board over the last few years. I do not intend to stand for re-election at the next Annual General Meeting.

Shareholders

The free share-dealing scheme for small shareholders will be offered. This year eligible shareholders, those with holdings of 1,000 or less Ordinary 20 pence shares, will receive a personal letter and details of the scheme allowing them to sell or buy shares at no transaction cost until 31 July 2006.

Outlook

The Board will now undertake a strategic review to establish the prospects for realistically creating value from the existing investments. On completion of this review the Board will take the appropriate action with regard to these investments.

A resolution is being proposed at the Annual General Meeting to widen the Company's investment criteria.

In the circular to shareholders dated 18 October 2001, it was stated that your company intended to make investments in the Life Sciences and Information Technology sectors. Following the disappointing performance of the investment portfolio and the relatively high risk associated with such investments, your board is seeking shareholders' approval to make investments in other business sectors in the UK including property companies, property financing businesses, other asset-backed and cash generative investments. The Company may play a passive role in some of the investments and active on others. The investments will be in sectors in which at least one member of the Board has some experience to evaluate the proposal. Where necessary, professional help will be sought to undertake any due diligence required on the proposed investments.

The company is in the process of reviewing the existing investment portfolio and does not intend to implement any fundamental immediate change. Opportunities will be considered over time with a view to maximising the realisation proceeds. However, this will not preclude the prompt disposal of any investments which the Board believes to be likely to fall in value.

The Board will consider future investments in the Life Science and Information Technology sectors alongside others with a view to improving both investment returns and portfolio diversity.

Victor Beamish
Chairman
19 June 2006

BILLAM PLC

BOARD OF DIRECTORS AND ADVISERS

Board of directors:	Victor Beamish (aged 52) Non-executive Chairman Chairman of the Audit and Remuneration Committees Nishith Malde (aged 48) Simon Bennett (aged 47) Non-executive director
Company registration number:	00298654
Registered office:	Trinity Court, Batchworth Island, Church Street, Rickmansworth, Herts, WD3 1RT
Website:	www.billamplc.co.uk
Secretary:	Nishith Malde
Bankers:	Bank of Scotland
Solicitors:	Pinsent Masons 30 Aylesbury Street, London EC1R 0ER
Auditors:	Grant Thornton UK LLP 2 Broadfield Court, Sheffield, S8 0XF
Nominated Adviser and Broker:	KBC Peel Hunt Limited 111 Old Broad Street, London, EC2N 1PH
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

QUOTED PORTFOLIO

Cybit Holdings plc (AIM)		Telematic Service Provider
Equity Ownership	10%	Cybit is one of the UK's leading telematics service providers. It introduced new products including a GPRS service and Duty of Care module. Major identified new business wins totalling in excess of £2 million were announced. At the half year to 30 September 2005 and following adoption of a more conservative accounting policy in 2004 sales were £4.9 million (2004 £2.6 million).
Valuation (£'000)	1,018	
Cost (£'000)	368	
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. EiRx announced the acquisition of Auvation Limited which owns various rights including a unique library of tumour samples, a growing patent estate and option to in-license IPR. Also the filing of patents for new drug candidates and research agreement with a major pharmaceutical company.
Valuation (£'000)	1	
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	3%	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. Intellego announced sales up 86% at the full year and 80% at the half year with enhanced margins. It reported significant business wins with commercial organisations including DHL, Xerox, Prudential Property Services and AMEC Group and with the public sector including the NHS. It reported two new exclusive agreements and an acquisition to strengthen and broaden the product range.
Valuation (£'000)	70	
Cost (£'000)	60	
Valuation based on market value		
Cost – Original cost		

BILLAM PLC

PORTFOLIO REVIEW

Physiomics plc (AIM)		Computer Simulation of Cells – Systems Biology
Equity Ownership	3%	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.
Valuation (£'000)	58	
Cost (£'000)	159	
Valuation based on market value for shares held direct and excluding shares held via EiRx Pharma Ltd		Physiomics reported a further five year agreement to distribute Bayer Technical Services GmbH PK-Sim® pharmacokinetic modelling products and services and an option agreement to licence therapeutic products from Cronos Therapeutics.
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.
Valuation (£'000)	136	
Cost (£'000)	55	
Valuation based on market value		Sareum announced it had achieved a major milestone on a collaboration signed in 2004, as well as five new major collaborations with pharmaceutical businesses and 'Crystal Bank' for rapidly accessing protein structure data.
Cost – Original cost		

Sosei Limited (Tokyo Stock Exchange)		Biopharmaceutical Company with Operations in Japan and Europe
Equity Ownership	<1%	Sosei is a leading Japanese biopharmaceutical company with operations in Japan and the UK. In August 2005 Sosei acquired Arakis for £106.5 million in cash and shares. The enlarged group has a broad mid-late stage clinical and pre-clinical pipeline of products with near term revenue generation potential, complementing product discovery capabilities and strengths in Europe and Asia.
Valuation (£'000)	222	
Cost (£'000)	141	
Valuation based on market value less realisations		The Group has established licensing agreements generating milestone payments and three products in clinical development. It has net cash to fund the expected expenditure over the next three years.
Cost – Original Cost		

BILLAM PLC

PORTFOLIO REVIEW

UNQUOTED PORTFOLIO

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). A description of each investee is shown in the quoted portfolio section.
Valuation (£'000)	1,059	
Cost (£'000)	2,700	
Valuation based on value of underlying investments		

Inaplex Limited		Database and Integration Tools
Equity Ownership	6%	Inaplex – provides data integration and manipulation software and services for leading software vendors and their resellers and clients. This enables data to be transferred between databases, manipulated and transferred again. This is not trivial. Inaplex has formed relationships with leading CRM software houses SalesLogix, ACCPAC CRM, HEAT and GoldMine. The business has taken longer to establish its sales but following a cost reduction programme is now trading profitably month on month.
Valuation (£'000)	28	
Cost (£'000)	67	
Valuation based on price of recent investment		

TMO Biotec Limited		Bio-ethanol and Bio-diesel Production Technology
Equity Ownership	2%	TMO's key area of expertise is in efficient and continuous high-temperature fermentation. The TMO process, employing its proprietary thermophiles, is at the core of the conversion of non-food feedstocks to biofuels, commodity chemicals and biocatalysts. Fermentation productivity is up to ten times higher than in competing processes while still enjoying the very high product purity that biotechnology allows. The first plants to use TMO's patented process are planned to be operational in 2006.
Valuation (£'000)	114	
Cost (£'000)	114	
Valuation based on cost		

Trimex Group Limited		Telematics - Security
Equity Ownership	2%	Trimex primary service - Eurowatch is an innovative multi-country service that addresses escalating crime against vehicles and freight throughout Europe. It helps drivers and owners contact the police when a crime occurs at home or abroad. Coverage extends today to Western, Central and Eastern Europe and parts of the Russian Federation. It has now signed membership agreements with high value cargo manufacturers and leading insurers as well as partnership agreements with telematic service providers and OEM car makers.
Valuation (£'000)	400	
Cost (£'000)	1,031	
Valuation based on directors' valuation		

BILLAM PLC

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report, together with the financial statements of the Company for the year ended 31 December 2005.

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 20p each are listed on the Alternative Investment Market (AIM) of the London Stock Exchange.

The principal activity of the Company 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 Company has adopted the Statement of Recommended Practice (SORP) for Investment Trusts (January 2003), the Company'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 portfolio review on pages 4 - 6.

Subsidiary undertakings

The subsidiaries of the Company are dormant 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.

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 2006 AGM will be dispatched more than 21 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 comprised Victor Beamish and Simon Bennett, 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 Company 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 Company'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 Company'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 Company's operating businesses that embody key controls over relevant areas. The implications of changes in law and regulations are taken into account by the Company.

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 Company. 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 non-executive directors be appointed for a fixed term as recommended by the Code.

Results and dividends

The net deficit of the Company for the year after taxation amounted to £5,088,000 (2004: Group: £4,300,000, Company: £2,547,000). The directors do not recommend the payment of a dividend for the year ended 31 December 2005.

Assets

The net assets of the Company at 31 December 2005 totalled £2,155,000 (2004: £7,143,000). The net assets per ordinary share as at 31 December 2005 were 19.1p (2004: 34.7p).

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 66 days of average supplies.

BILLAM PLC

REPORT OF THE DIRECTORS

Significant shareholdings

According to the Company's register of substantial shareholdings at 16 June 2006, the following had notified the Company of their interest in 3% or more of the Company's issued ordinary share capital:

	Number of shares	%
S D Wicks	2,694,500	25.8
A G P Forrest	1,123,000	10.7
Forest Nominees Ltd	661,979	6.3
W Weston	619,500	5.9
V N Beamish	395,500	3.8
Aberdeen Holdings Limited	<u>390,000</u>	<u>3.5</u>

Directors and secretary

Simon Bennett and Nishith Malde who were appointed since the last AGM, retire in accordance with the Articles of Association and, being eligible, offer themselves for re-appointment.

Those directors who held office during the year are listed below together with their interests in the shares of the Company, which include beneficial and family interests.

	As at 31 December 2005 Ordinary shares of 20p	As at 1 January 2005 or at date of appointment Ordinary shares of 10p
V N Beamish	395,500	681,315
A G P Forrest (resigned 24 March 2006)	1,123,000	2,146,415
S Bennett (appointed 18 August 2005)	<u>-</u>	<u>-</u>

J A Hoskins resigned as a director on 18 August 2005.

There have been no changes in these interests between 31 December 2005 and 12 May 2006. All the above interests are beneficial.

Details of directors' share options are given in the report on remuneration on pages 33 to 35.

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

The Company has no contracts with any of the directors, except for a service contract with Mr Forrest. The service contract is ongoing and has a notice period of 12 months for either party. Non-executive directors have a notice period of 6 months. Details of directors' remuneration are shown in the report on remuneration on pages 33 to 35.

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 of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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 Company 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 Company 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

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

Nishith Malde
Company Secretary
19 June 2006

We have audited the financial statements of Billam plc for the year ended 31 December 2005 which comprise statement of total return, the balance sheet, the cash flow statement, the principal accounting policies and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's Statement, the Portfolio Review 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

BILLAM PLC

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BILLAM PLC

Opinion

In our opinion, the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its deficit 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
19 June 2006

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.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

BILLAM PLC

STATEMENT OF TOTAL RETURN (incorporating the revenue account)

For the year ended 31 December 2005

	Note	2005 £'000 Capital	2005 £'000 Revenue	2005 £'000 Total	2004 £'000 Capital	2004 £'000 Revenue	2004 £'000 Total	2004 £'000 Group Total
Losses on investments	7	(4,530)	-	(4,530)	(2,242)	-	(2,242)	(4,071)
Income	1	-	52	52	-	60	60	60
Gross revenue and capital deficit		(4,530)	52	(4,478)	(2,242)	60	(2,182)	(4,011)
Administrative expenses	2	-	(607)	(607)	-	(626)	(626)	(622)
Net deficit before finance costs and taxation		(4,530)	(555)	(5,085)	(2,242)	(566)	(2,808)	(4,633)
Interest payable and similar charges	3	-	(3)	(3)	-	(3)	(3)	(3)
Deficit on ordinary activities before taxation		(4,530)	(558)	(5,088)	(2,242)	(569)	(2,811)	(4,636)
Tax on ordinary activities	5	28	(28)	-	533	(269)	264	336
Deficit attributable to equity shareholders	6, 16	(4,502)	(586)	(5,088)	(1,709)	(838)	(2,547)	(4,300)
Deficit per ordinary share								
Basic and fully diluted	6	(44.1p)	(5.7p)	(49.8p)	(9.5p)	(4.7p)	(14.2p)	(24.0p)

The return per ordinary share is based on the weighted average number of ordinary shares in issue during the year of 10,206,154 ordinary shares of 20 pence (2004: 17,945,924 ordinary shares of 10 pence).

The revenue column of this statement forms the basis of the profit and loss of the Company as shown in Note 27.

All of the above results arise from continuing activities.

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

Billam Plc is no longer required to present consolidated financial statements as all subsidiary companies are dormant. The statement of total return above therefore only shows the results of the company for both 2005 and 2004. The subsidiaries were not dormant for the whole of the year ended 31 December 2004 and therefore the total column for the group for the year then ended is presented above.

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

BILLAM PLC

BALANCE SHEET AT 31 DECEMBER 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Investments	7	<u>3,106</u>	<u>7,864</u>
Current assets			
Debtors	10	171	201
Cash at bank and in hand		<u>9</u>	<u>47</u>
		<u>180</u>	<u>248</u>
Creditors: amounts falling due within one year	11	<u>(259)</u>	<u>(57)</u>
Net current (liabilities)/assets		<u>(79)</u>	<u>191</u>
Total assets less current liabilities		<u>3,027</u>	<u>8,055</u>
Creditors: amounts falling due after more than one year	12	<u>(872)</u>	<u>(912)</u>
		<u>2,155</u>	<u>7,143</u>
Capital and reserves			
Called up share capital	15	2,250	2,170
Share premium account	16	5,409	5,389
Other reserves			
Capital reserve realised	16	(842)	(584)
Capital reserve unrealised	16	(2,657)	1,587
Merger reserve	16	1,012	1,012
Revenue account	16	<u>(3,017)</u>	<u>(2,431)</u>
Shareholders' funds	18	<u>2,155</u>	<u>7,143</u>
Total shareholders' funds are attributable to:			
Ordinary shareholders	17	1,997	6,985
Deferred shareholders	17	<u>158</u>	<u>158</u>
		<u>2,155</u>	<u>7,143</u>
Net asset value per share			
Ordinary shares	17	19.1p	34.7p
Deferred shares	17	<u>0.1p</u>	<u>0.1p</u>

The net asset value per ordinary share is based on net assets at the year end and on 10,460,000 ordinary shares of 20 pence (2004: 20,119,680 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 19 June 2006.

Simon Bennet

Director

Victor Beamish

Chairman

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

BILLAM PLC**CASH FLOW STATEMENT**

For the year ended 31 December 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Net cash (outflow)/inflow from operating activities	19		(263)		632
Returns on investment and servicing of finance					
Interest paid		<u>(3)</u>		<u>(3)</u>	
Net cash outflow from returns on investment and servicing of finance			(3)		(3)
Capital expenditure and financial investment					
Purchase of investments		(27)		(2,118)	
Sale of investments		<u>255</u>		<u>652</u>	
Net cash inflow/(outflow) from capital expenditure and financial investment			228		(1,466)
Net cash outflow before financing			(38)		(837)
Financing					
Issue of share capital		<u>-</u>		<u>728</u>	
Net cash inflow from financing			-		728
Decrease in cash in the year	21		(38)		(109)

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 Company remain unchanged from the previous year. The Company 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 27).

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 Company is presented in a statement of total return in which the revenue column would be the profit and loss account of the Company 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 Company, 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.

CONSOLIDATION

Consolidated accounts have not been prepared because the subsidiary companies are dormant.

INVESTMENTS

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

Other investments are carried in accordance with International Private Equity and Venture Capital Valuation Guidelines.

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.

BILLAM PLC

PRINCIPAL ACCOUNTING POLICIES

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 International Private Equity and Venture Capital Valuation Guidelines.

In estimating fair value a valuation 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:

Methodology

Price of recent investment

Earnings multiple

Net assets

Discounted cash flows or earnings of the underlying business

Discounted cash flows from the investment

Industry valuation benchmarks

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 the most appropriate methodology. 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.

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 foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserves.

BILLAM PLC

PRINCIPAL ACCOUNTING POLICIES

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 Company 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 2005

1 INCOME

	2005 £'000 Revenue	2004 £'000 Revenue
Total income comprises:		
Bank deposit interest	-	4
Other income	<u>52</u>	<u>56</u>
	<u>52</u>	<u>60</u>
Other income		
Management fees	16	23
Other	<u>36</u>	<u>33</u>
	<u>52</u>	<u>56</u>

2 ADMINISTRATIVE EXPENSES

Administrative expenses includes the following:

	2005 £'000 Revenue	2004 £'000 Revenue
Auditors' remuneration for		
- statutory audit	17	17
- tax compliance	4	9
- tax advisory	-	9
- other services	7	4
Other operating lease rentals - land and buildings	<u>57</u>	<u>56</u>

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £'000 Revenue	2004 £'000 Revenue
On director's loans	<u>3</u>	<u>3</u>

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

	2005 £'000	2004 £'000
	Revenue	Revenue
Wages and salaries	153	222
Social security costs	68	16
Pension costs	8	12
	229	250

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

	2005 Number	2004 Number
Management of investments	4	4

Further details of individual directors' remuneration, pension fund and share options are shown in the report on remuneration on pages 33 to 35.

5 TAX ON ORDINARY ACTIVITIES

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

	2005 £'000	2005 £'000	2005 £'000	2004 £'000	2004 £'000	2004 £'000
	Capital	Revenue	Total	Capital	Revenue	Total
Deferred tax (see note 13)	28	(28)	-	533	(269)	264

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:

	2005 £'000	2005 £'000	2005 £'000	2004 £'000	2004 £'000	2004 £'000
	Capital	Revenue	Total	Capital	Revenue	Total
Deficit on ordinary activities before taxation	(4,530)	(558)	(5,088)	(2,242)	(569)	(2,811)
Deficit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(1,359)	(167)	(1,526)	(673)	(170)	(843)
Effect of:						
Expenses not deductible for tax	4	3	7	-	15	15
Deductions allowable for tax	(3)	-	(3)	(1)	-	(1)
Capital losses brought forward utilised	-	-	-	(58)	-	(58)
Short term timing differences	-	4	4	-	(11)	(11)
Unrealised loss not allowable for tax	1,282	-	1,282	732	-	732
Unused tax losses carried forward	76	160	236	-	166	166
Current tax charge	-	-	-	-	-	-

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

6 DEFICIT PER ORDINARY SHARE

The deficit per ordinary share is based on the weighted average number of ordinary shares in issue during the year of 10,206,154 ordinary shares of 20 pence (2004: 17,945,924 ordinary shares of 10 pence) and the following figures:

	2005	2005	2005	2004	2004	2004
	£'000	£'000	£'000	£'000	£'000	£'000
	Capital	Revenue	Total	Capital	Revenue	Total
Deficit attributable to equity shareholders	<u>(4,502)</u>	<u>(586)</u>	<u>(5,088)</u>	(1,709)	(838)	(2,547)
Deficit per ordinary shares	<u>(44.1p)</u>	<u>(5.7p)</u>	<u>(49.8p)</u>	(9.5p)	(4.7p)	(14.2p)

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

7 INVESTMENTS

	2005	2004
	£'000	£'000
Investments listed on a recognised investment exchange	1,505	2,077
Other unlisted investments	1,601	5,787
	<u>3,106</u>	<u>7,864</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7 INVESTMENTS (CONTINUED)

	Listed £'000	Listed overseas £'000	Subsidiary undertakings £'000	Other unlisted investments £'000	Total £'000
Cost					
At 1 January 2005	692	407	2,623	5,150	8,872
Additions	-	-	-	27	27
Reclassifications	-	98	-	(98)	-
Sales					
- proceeds	(131)	(81)	-	(43)	(255)
- realised gains/(losses) on sales	84	(342)	-	-	(258)
At 31 December 2005	<u>645</u>	<u>82</u>	<u>2,623</u>	<u>5,036</u>	<u>8,386</u>
Unrealised appreciation / (depreciation)					
At 1 January 2005	1,360	(382)	-	637	1,615
Reclassifications	-	23	-	(23)	-
(Decrease)/increase in unrealised appreciation	(722)	499	-	(4,049)	(4,272)
At 31 December 2005	<u>638</u>	<u>140</u>	<u>-</u>	<u>(3,435)</u>	<u>(2,657)</u>
Amounts due to subsidiaries	<u>-</u>	<u>-</u>	<u>(2,623)</u>	<u>-</u>	<u>(2,623)</u>
Cost or valuation					
At 31 December 2005	<u>1,283</u>	<u>222</u>	<u>-</u>	<u>1,601</u>	<u>3,106</u>
At 31 December 2004	<u>2,052</u>	<u>25</u>	<u>-</u>	<u>5,787</u>	<u>7,864</u>
				2005	2004
				£'000	£'000
Net (losses)/gains on sales or liquidations				(258)	199
Net decrease in unrealised appreciation				(4,272)	(2,441)
Loss on investments				(4,530)	(2,242)

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8 SIGNIFICANT INTERESTS

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

	Country of incorporation	Class of share capital held	Percentage of share capital held %	Total cost £'000	Carrying value at 31 December 2005 £'000	Carrying value at 31 December 2004 £'000
Listed investments						
Cybit Holdings plc	United Kingdom	Ordinary	10	415	1,018	1,644
Intellego Holdings Plc	United Kingdom	Ordinary	3	60	70	67
Physionics plc	United Kingdom	Ordinary	3	159	58	184
Unlisted Investments						
Inaplex Limited	United Kingdom	Ordinary	6	67	28	67
EiRx Pharma Limited	United Kingdom	Ordinary	39	2,700	1,059	4,389

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 Company's investment portfolio. The Company does not seek to influence the day to day management of the companies in which its investments are made.

9 SUBSIDIARY UNDERTAKINGS

At 31 December 2005 Billam plc owned 100% of the share capital of World Life Sciences Limited and Urco Limited. These companies were both dormant throughout the year. Both are incorporated in the United Kingdom.

BILLAM PLC**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2005

10 DEBTORS

	2005	2004
	£'000	£'000
Other debtors	9	58
Prepayments and accrued income	162	143
	171	201

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005	2004
	£'000	£'000
Trade creditors	68	20
Social security and other taxes	66	6
Other creditors and accruals	125	31
	259	57

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005	2004
	£'000	£'000
Loan notes due to Billam AG	397	397
Other creditor - notice payment	-	85
Other creditors and accruals	407	354
Director's loan account	54	21
Pension contributions	14	55
	872	912

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.

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Taxation £'000
At 1 January 2005	-
Charged/(credited) during the year	
- revenue	28
- capital	(28)
At 31 December 2005	<u>-</u>

14 DEFERRED TAXATION

	2005 £'000	2004 £'000
Timing differences related to capital	-	418
Losses available		
- capital	-	(390)
- revenue	-	(28)
	<u>-</u>	<u>-</u>

The movement in deferred tax is shown in note 13.

The Company has unrecognised deferred tax assets as a result of losses carried forward of £1,899,000 (2004: £614,000).

15 SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised		
19,210,250 ordinary shares of 20p each (2004: 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		
10,460,000 ordinary shares of 20p each (2004: 20,119,680 ordinary shares of 10p each)	2,092	2,012
157,950,000 deferred shares of 0.1p each	158	158
	<u>2,250</u>	<u>2,170</u>

Allotments during the year

On 22 March 2005 320 ordinary share of 10p per share were issued to round up the number of issued ordinary shares in preparation for the share consolidation.

On 8 April 2005 the authorised and issued ordinary shares were consolidated into 1 share of £50 each for every 500 of 10p each. The shares of £50 each were then sub-divided into 250 shares of 20p each. Trading in the ordinary shares of 20p each commenced on 11 April 2005.

On 17 August 2005 400,000 shares of 20p per share were issued in settlement of liabilities to Billam AG. The difference between the issue price of £100,000 and the nominal amount of £80,000 has been credited to the share premium account.

15 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 2005 options were exercisable over 525,000 ordinary shares of 20p (2004: 1,050,000 shares of 10p). The exercise prices of the options are 165,000 at 200p exercisable at any time prior to 28 February 2008 and 360,000 at 52p exercisable at any time prior to 25 February 2010. Subsequent to 31 December 2005 no options have been exercised.

16 SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Merger reserve £'000	Revenue account £'000
At 1 January 2005	5,389	(584)	1,587	1,012	(2,431)
Premium on allotment during the year	20	-	-	-	-
Retained net revenue for the year	-	-	-	-	(586)
Net loss on realisation of investments	-	(3)	-	-	-
Transfer on disposal of investment	-	(255)	255	-	-
Net change in unrealised appreciation	-	-	(4,527)	-	-
Tax effect of capital items	-	-	28	-	-
At 31 December 2005	<u>5,409</u>	<u>(842)</u>	<u>(2,657)</u>	<u>1,012</u>	<u>(3,017)</u>

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17 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	
	2005	2004	2005	2004
	p	p	£'000	£'000
Ordinary shares	19.1	34.7	1,997	6,985
Deferred shares	0.1	0.1	158	158
			<u>2,155</u>	<u>7,143</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 10,460,000 ordinary shares of 20 pence (2004: 20,119,680 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 (2004: 157,950,000) being the number of deferred shares in issue at the year end.

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005	2004
	£'000	£'000
Total recognised losses for the year	(5,088)	(2,547)
Amount recognised in merger reserve	-	(724)
New share capital subscribed	100	728
	<u>(4,988)</u>	<u>(2,543)</u>
Shareholders' funds at 1 January 2005	7,143	9,686
Shareholders' funds at 31 December 2005	<u>2,155</u>	<u>7,143</u>

19 RECONCILIATION OF OPERATING DEFICIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2005	2004
	£'000	£'000
Operating deficit	(5,085)	(2,808)
Loss/(gain) on sale of investments	258	(199)
Amounts written off during the year	-	724
Unrealised decrease in investment appreciation	4,272	2,441
Decrease/(increase) in debtors	30	(64)
Increase in creditors	262	538
Net cash (outflow)/inflow from operating activities	<u>(263)</u>	<u>632</u>

BILLAM PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

20 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2005 £'000	Cash flow £'000	At 31 December 2005 £'000
Cash at bank and in hand	47	(38)	9
Loan notes	(397)	-	(397)
	<u>(350)</u>	<u>(38)</u>	<u>(388)</u>

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2005 £'000	2004 £'000
Decrease in cash in the year	(38)	(109)
Change in net funds resulting from cash flows	(38)	(109)
Net debt at 1 January 2005	(350)	(241)
Net debt at 31 December 2005	<u>(388)</u>	<u>(350)</u>

22 CONTINGENCIES, GUARANTEES AND FINANCIAL COMMITMENTS

At 31 December 2005 there was a commitment of up to £46,000 in respect of a rights issue (2004: contingent commitment of £100,000 in respect of a guarantee) for Trimex Group Limited.

At 31 December 2005 there was a contingent commitment of up to £125,000 in respect of a call option for Physiomics plc.

23 RETIREMENT BENEFITS

Defined Contribution Pension Scheme

The Company 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 Company.

24 COMMITMENTS UNDER OPERATING LEASES

There were annual commitments under operating leases expiring as follows:

	2005 £'000	2004 £'000
Land and buildings		
Within 2 to 5 years	79	-
In 5 years or more	-	57
	<u>79</u>	<u>57</u>

25 TRANSACTIONS WITH RELATED PARTIES

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 £54,300. Interest accrued during the year was £2,860, and the total interest outstanding at the year end was £13,822.

Within creditors are amounts accrued but not yet paid to directors in relation to remuneration. These amounts are £457,048 (2004: £388,048) earned and due to Angus Forrest and £30,000 (2004: £10,000) due to Victor Beamish.

26 FINANCIAL INSTRUMENTS AND RISK PROFILE

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

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

The Company 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 Company faces in its activities are:

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

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

Liquidity risk

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

Market price risk

The Company exposure to market price risk comprises monitoring movements in the value of its equity investments. Details of the investment portfolio are given in the portfolio review on pages 4 - 6.

For the year ended 31 December 2005

26 FINANCIAL INSTRUMENTS AND RISK PROFILE (CONTINUED)

Foreign currency risk

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

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

	2005	2004
	£'000	£'000
Japanese Yen	222	-
Euro	-	25

The Company's financial instruments comprises of the following:

Financial assets	2005		2004	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Investment portfolio	3,356	3,812	7,864	7,864

Financial liabilities

	2005		2004	
	Book value	Fair value	Book Value	Fair Value
	£'000	£'000	£'000	£'000
Loan from Billam AG	397	279	397	267

27 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 Company 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 £258,000 (2004: gain of £199,000) and management expenses and finance costs charged to capital, net of tax, of £nil. The net loss before tax of the Company for the year was £816,000 (2004: £397,000). 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 Company, 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 2005. 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 Company'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 was as follows: Victor Beamish (Chairman) and Simon Bennett.

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. 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

Any 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 basic salary of executive directors was last reviewed on 16 December 2004.

Performance related bonus

A bonus scheme has been established which recognizes 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	
	2005	2005	2005	2004	2005	2004
	£'000	£'000	£'000	£'000	£'000	£'000
Executive						
A G P Forrest	92	-	92	154	8	12
Non-executive						
V N Beamish	20	-	20	30	-	-
J A Hoskins	9	-	9	12	-	-
S C Bennett	7	-	7	-	-	-
	<u>128</u>	<u>-</u>	<u>128</u>	<u>196</u>	<u>8</u>	<u>12</u>

Remuneration in respect of S C Bennett was paid to Incremental Capital LLP.

In the year A G P Forrest waived £50,000 of emoluments.

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 2005 20p Ordinary shares	As at 1 January 2005 10p Ordinary shares
V N Beamish	395,500	681,315
A G P Forrest	1,123,000	2,146,415
S C Bennett	-	-

BILLAM PLC

REPORT ON REMUNERATION

Directors' interests (continued)

Share Options

At 31 December 2005, the directors held the following options over shares in the Company:

	Number	Exercise price pence	Number	Exercise price pence
V N Beamish	20,000	200	75,000	52
A G P Forrest	125,000	200	250,000	52
S C Bennett	-	-	-	-

All options were issued under an unapproved scheme. The options priced at 200p are exercisable at any time prior to 28 February 2008 and the options priced at 52p 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 2005 was 23.5p per 20p ordinary share (2004: 23p 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 2005 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

19 June 2006

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 10.00 am on 14 July 2006 at the offices of KBC Peel Hunt Limited at 111 Old Broad Street, London, EC2N 1PH for the purpose of considering and, if thought fit, passing the following resolutions 1, 2, 3, 4, 5, 6 and 7 as ordinary resolutions and resolution 8 as a special resolution of the Company:

Ordinary business:

1. THAT the audited accounts of the Company for the financial year ended 31 December 2005 and the directors' report and auditors' report on those accounts and the report on remuneration be received and adopted.
2. THAT Grant Thornton UK LLP be appointed auditors of the Company to hold office from the conclusion of this Meeting until the conclusion of the next general meeting at which audited accounts are laid and to authorise the directors to fix their remuneration.
3. THAT Simon Bennett be re-appointed as a director of the Company in accordance with the Articles of Association of the Company.
4. THAT Nishith Malde be re-appointed as a director of the Company in accordance with the Articles of Association of the Company.
5. THAT Dimitri Dimitriou be appointed as a director of the Company in accordance with the Articles of Association of the Company.

Special business:

6. As an ordinary resolution

THAT the proposed change in the investment strategy of the Company be approved and that the Company is hereby authorised to make investments in such manner and in such business sector(s) as the directors think fit, including without limitation property companies, property financing companies, other asset-backed investments and cash generative investments.

7. As an ordinary resolution

THAT in substitution for all existing authorities under that section, the directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined in Section 80(2) of the Act) of the Company up to a maximum aggregate nominal amount of £523,000 or 25% of the current issued share capital from time to time to such persons, at such times and generally on such terms and conditions as the directors (subject to the Articles of Association of the Company from time to time) in their absolute discretion may determine during the period commencing on the date of the passing of this resolution and expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months from the date of the passing of this resolution or, if earlier, on the conclusion of the next Annual General Meeting of the Company save that the Company may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of this authority and the directors may allot relevant securities pursuant to such an offer or agreement as if the authorities hereby conferred had not expired.

8. As a special resolution

THAT in substitution for all existing authorities and subject to the passing of resolution 8 above, the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by resolution 8 above as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:

- (a) to the allotment of equity securities where the equity securities respectively attributable to the interests of all relevant shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them on the record date for such allotment subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any regulatory body or stock exchange in, any territory; or
- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities for cash up to an aggregate nominal amount not exceeding £523,000 or 25% of the current issued share capital from time to time, and shall expire on the conclusion of the next Annual General Meeting of the Company or 15 months after the passing of this resolution, whichever is earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement after such expiry as if the power conferred hereby had not expired.

BY ORDER OF THE BOARD

Registered Office:
Trinity Court
Batchworth Island
Church Street
Rickmansworth
Herts WD3 1RT

Nishith Malde
Company Secretary
19 June 2006

NOTICE OF ANNUAL GENERAL MEETING

NOTES:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy(ies) to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the offices of the Company's Registrars, Computershare Investor Services plc, PO Box 32, The Pavilions, Bridgwater Road, Bristol, BS99 7NH not later than 10.00 a.m. on 12 July 2006. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the Meeting.
3. Copies of all directors' service contracts or, where any such contract is not reduced to writing, a memorandum of the terms thereof, will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Meeting and at the offices of KBC Peel Hunt Limited, 111 Old Broad Street, London, EC2N 1PH for at least 15 minutes prior to and at the Meeting.
4. The register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 shall be produced at the commencement of the Meeting and remain open and accessible during the continuance of the Meeting to any person attending the Meeting.
5. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of securities of the Company at 10.00 am on 12 July 2006 shall be entitled to attend and vote at the Meeting (or, if the Meeting is adjourned, 10.00 am on the date being two days prior to the date fixed for the adjourned Meeting) in respect of the number of Ordinary Shares registered in their name at the time. Changes to entries on the relevant register of securities after 10.00 am on the relevant date shall be disregarded in determining the right of any person to attend or vote at the Meeting.