

**Internet Watch Limited trading as
Internet Watch Foundation**

**Financial Statements
For the Year Ending 31 March 2005**

Draft Accounts

Company Registration Number 3257438

Internet Watch Limited trading as Internet Watch Foundation

Financial Statements

Year Ended 31 March 2005

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Internet Watch Limited trading as Internet Watch Foundation

Officers and Professional Advisers

The Board of Directors

Mr R A Darlington
Mr P E T Robbins
Mr S Persoff

Company Secretary

Mr P E T Robbins

Registered Office

East View
5 Coles Lane
Oakington
Cambridge
CB4 5BA

Auditors

Peters Elworthy & Moore
Chartered Accountants
& Registered Auditors
Salisbury House
Station Road
Cambridge
CB1 2LA

Bankers

Barclays Bank PLC
Bene't Street
Cambridge
CB2 3PZ

Internet Watch Limited trading as Internet Watch Foundation

The Directors' Report

Year Ended 31 March 2005

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 March 2005.

Principal Activities

The principal activities of the company continue to be fostering trust and confidence in the Internet among current and future fixed and mobile internet users by operating a hotline; assisting service providers to combat the abuse of their systems for the dissemination of criminal content; assisting law enforcement in the fight against criminal content on the Internet.

Directors

The directors who served the company during the year were as follows:

Mr R A Darlington
Mr P E T Robbins
Mr N Truman

Mr S Persoff was appointed as a director on 7 July 2005.

Mr N Truman resigned as a director on 6 July 2005.

The company is a wholly owned subsidiary of Internet Watch Foundation, a charitable company.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the year and of the profit or loss for the year then ended.

In preparing those financial statements, the directors are required to select suitable accounting policies, as described on page 8, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Charitable Donation

The company covenants its taxable profit to the parent charitable company, Internet Watch Foundation. The covenant payable for the year amounted to £164,185 (2004: £nil).

Auditors

A resolution to re-appoint Peters Elworthy & Moore as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Internet Watch Limited trading as Internet Watch Foundation

The Directors' Report *(continued)*

Year Ended 31 March 2005

Small Company Provisions

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

Signed by order of the directors

Mr P E T Robbins
Company Secretary

Approved by the directors on

Internet Watch Limited trading as Internet Watch Foundation

Independent Auditors' Report to the Shareholders of Internet Watch Limited trading as Internet Watch Foundation

Year Ended 31 March 2005

We have audited the financial statements of Internet Watch Limited trading as Internet Watch Foundation for the year ended 31 March 2005 which comprise the Profit and Loss Account, Balance Sheet and the related notes. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002), under the historical cost convention and on the basis of the accounting policies set out therein.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

Internet Watch Limited trading as Internet Watch Foundation

**Independent Auditors' Report to the Shareholders of Internet Watch Limited trading as Internet
Watch Foundation (continued)**

Year Ended 31 March 2005

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

**These financial statements have NOT yet been signed by the auditors.
The name and address of the auditors
has therefore been suppressed.**

DRAFT ACCOUNTS

Internet Watch Limited trading as Internet Watch Foundation

Profit and Loss Account

Year Ended 31 March 2005

	Note	2005 £	2004 £
Turnover		871,421	691,722
Administrative expenses		737,028	530,146
Charitable donation		164,185	-
Other operating income		(4,493)	(7,755)
Operating (Loss)/Profit	2	(25,299)	169,331
Interest receivable		5,529	859
(Loss)/Profit on Ordinary Activities Before Taxation		(19,770)	170,190
Tax on (loss)/profit on ordinary activities	4	(3,044)	33,246
(Loss)/Retained Profit for the Financial Year		(16,726)	136,944
Balance brought forward		186,617	49,673
Balance carried forward		<u>169,891</u>	<u>186,617</u>

The notes on pages 8 to 11 form part of these financial statements.

Internet Watch Limited trading as Internet Watch Foundation

Balance Sheet

31 March 2005

	Note	£	2005 £	£	2004 £
Fixed Assets					
Tangible assets	5		18,547		23,576
Current Assets					
Debtors	6	235,730		82,161	
Cash at bank		338,931		255,949	
		<u>574,661</u>		<u>338,110</u>	
Creditors: Amounts Falling due Within One Year	7	<u>423,315</u>		<u>172,023</u>	
Net Current Assets			151,346		166,087
Total Assets Less Current Liabilities			169,893		189,663
Provisions for Liabilities and Charges					
Deferred taxation	8		–		3,044
			<u>169,893</u>		<u>186,619</u>
Capital and Reserves					
Called-up equity share capital	10		2		2
Profit and loss account			<u>169,891</u>		<u>186,617</u>
Shareholders' Funds			169,893		<u>186,619</u>

These financial statements have been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985 and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

These financial statements were approved by the directors on the and are signed on their behalf by:

.....
Mr P E T Robbins

The notes on pages 8 to 11 form part of these financial statements.

Internet Watch Limited trading as Internet Watch Foundation

Notes to the Financial Statements

Year Ended 31 March 2005

1. Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

Cash flow statement

In the opinion of the directors the company qualifies as a small company and accordingly a cash flow statement is not required.

Turnover

Turnover is the total amount receivable by the company for services supplied, excluding VAT.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Plant, machinery and other assets	- 33.33% straight line
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Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Internet Watch Limited trading as Internet Watch Foundation

Notes to the Financial Statements

Year Ended 31 March 2005

2. Operating Profit

Operating profit is stated after charging/(crediting):

	2005	2004
	£	£
Depreciation of owned fixed assets	16,425	19,058
Auditors' fees	2,085	1,985
Net (profit)/loss on foreign currency translation	<u>(2,945)</u>	<u>2,730</u>

3. Directors' Emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2005	2004
	£	£
Aggregate emoluments	<u>100,172</u>	<u>82,362</u>

4. Taxation on Ordinary Activities

	2005	2004
	£	£
Current tax:		
UK Corporation tax based on the results for the year at 19% (2004 - 19%)	—	30,202
Total current tax	—	30,202
Deferred tax:		
Origination and reversal of timing differences		
Capital allowances	<u>(3,044)</u>	3,044
Tax on (loss)/profit on ordinary activities	<u>(3,044)</u>	<u>33,246</u>

Internet Watch Limited trading as Internet Watch Foundation

Notes to the Financial Statements

Year Ended 31 March 2005

5. Tangible Fixed Assets

	Plant, Machinery and Other Assets £
Cost	
At 1 April 2004	69,483
Additions	11,396
At 31 March 2005	<u>80,879</u>
Depreciation	
At 1 April 2004	45,907
Charge for the year	16,425
At 31 March 2005	<u>62,332</u>
Net Book Value	
At 31 March 2005	<u>18,547</u>
At 31 March 2004	<u>23,576</u>

6. Debtors

	2005 £	2004 £
Trade debtors	51,120	66,647
VAT recoverable	5,961	12,408
Other debtors	178,649	3,106
	<u>235,730</u>	<u>82,161</u>

7. Creditors: Amounts Falling due Within One Year

	2005 £	2004 £
Trade creditors	85,833	48,745
Corporation tax	-	30,202
Other taxation and social security	13,073	-
Other creditors	324,409	93,076
	<u>423,315</u>	<u>172,023</u>

8. Deferred Taxation

The movement in the deferred taxation provision during the year was:

	2005 £	2004 £
Provision brought forward	3,044	-
Profit and loss account movement arising during the year	(3,044)	3,044
Provision carried forward	<u>-</u>	<u>3,044</u>

Internet Watch Limited trading as Internet Watch Foundation

Notes to the Detailed Profit and Loss Account

Year Ended 31 March 2005

	2005 £	2004 £
The provision for deferred taxation consists of the tax effect of timing differences in respect of:		
	2005 £	2004 £
Excess of taxation allowances over depreciation on fixed assets	-	3,044
	<u>-</u>	<u>3,044</u>

9. Related Party Transactions

Members of the board of directors of Internet Watch Foundation are representatives of various companies providing internet related services. The companies pay subscriptions to Internet Watch Limited in exchange for their representation on the board. The standard annual subscription charge is between £5,000 and £20,000 depending on the size of the entity.

During the year Internet Watch Limited incurred legal and professional costs on behalf of its parent company, Internet Watch Foundation, totalling £9,970 (2004: £nil). The sum owed to Internet Watch Foundation at 31 March 2005 amounted to £164,185, representing the gift aid payment.

10. Share Capital

Authorised share capital:

	2005 £	2004 £
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	2005		2004	
	No	£	No	£
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

11. Ultimate Parent Company

The ultimate parent undertaking is Internet Watch Foundation, a charitable company incorporated in England and Wales.