# BRITISH SMALLER COMPANIES VCT plc


## Annual Report

**for the year to 31 March 2003**

## DIRECTORS

Sir Andrew Hugh Smith (Chairman)
Christopher Brown
Philip Cammerman
Richard Last
Clive Leach CBE
Robert Lindemann
Robert Pettigrew
John Seed

Biographical details for all the directors can be found on page 20 of this report.

## ADVISERS TO THE COMPANY

### Investment Adviser
**Yorkshire Fund Managers Limited**
Saint Martins House
210-212 Chapeltown Road
Leeds
LS7 4HZ

### Stockbrokers
**Beeson Gregory Limited**
The Registry
Royal Mint Court
London
EC3N 4EY

### Registrars
**Northern Registrars Limited**
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

### Independent Auditors
**PricewaterhouseCoopers LLP**
Benson House
33 Wellington Street
Leeds
LS1 4JP

### Solicitors
**Pinsents**
1 Park Row
Leeds
LS1 5AB

**Keeble Hawson**
Protection House
16-17 East Parade
Leeds
LS1 2BR

### Bankers
**The Royal Bank of Scotland plc**
27 Park Row
Leeds
LS1 5QB

### Quoted Investment Adviser
**Carr Sheppards Crosthwaite Limited**
2 Gresham Street
London
EC2V 7QN

### VCT Status Adviser
**PricewaterhouseCoopers LLP**
1 Embankment Place
London
WC2N 6RH

## FINANCIAL CALENDAR

| | |
|---|---|
| Results Announced | 10 June 2003 |
| Ex-dividend Date | 18 June 2003 |
| Record Date | 20 June 2003 |
| Annual General Meeting | 11 July 2003 |
| Dividend Payment Date | 4 August 2003 |

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## FINANCIAL SUMMARY

| | **Year ended 31 March 2003** | Year ended 31 March 2002 |
|---|---|---|
| Income | **£452,000** | £667,000 |
| Net revenue return before tax | **£125,000** | £346,000 |
| Net revenue return after tax | **£125,000** | £323,000 |
| Revenue return per share | **0.80p** | 2.05p |
| Total return per share | **(2.13)p** | (13.02)p |
| Dividend per share | **0.85p** | 2.00p |
| Net assets | **£10,137,000** | £10,681,000 |
| Net asset value per share | **65.3p** | 68.0p |
| Number of qualifying investments | **32** | 32 |
| Value of qualifying investments | **£8,349,000** | £8,612,000 |

The UK economic environment in which your Company operates has continued to be difficult in the second half of the financial year and has followed the general trend that I reported on in my interim statement. Over recent months the markets have shown some signs of stabilising but, inevitably, at a much lower level than that of this time last year.

Market sentiment toward the technology sector remains particularly depressed and valuations of companies operating in these markets, of which your Company has a number, are forced to reflect this even though individual businesses may be performing satisfactorily. In the year under review the FTSE™ All Share Index fell some 32% and the TechMARK™ All Share Index fell 47%. After allowing for dividend distributions paid and proposed, the fall of 3% in your Company's net asset value per share in that same period compares very favourably with these quoted stock market indices.

Despite these difficult conditions, a number of companies within the portfolio continue to show earnings increases on a sustainable basis and your Board has felt it appropriate to increase valuations accordingly. In other cases, despite improvements in operating and financial performance, your Board has not increased the carrying value of the investment due to concerns as to the macro economic environment and the uncertainty this brings as to sustainability of current growth. Nevertheless, your Board is encouraged by the general trend of the portfolio's development and a few early signs of realisation opportunities.

## Investment Portfolio

Given that your Company is fully invested for the purposes of meeting the VCT legislative targets for qualifying investments, your Board and its Investment Adviser, Yorkshire Fund Managers Limited, have been selective in the evaluation of investment opportunities throughout the last year. A total of £1.03m was invested in the year, of which £874,400 was into three new investments. All of these completed in the first half of the year and were covered in my interim report.

During the second half of the year a further £42,500 was invested in Imerge Limited as part of the staged funding of this business which is a recognised world leader in internet connected hard disk-based audio products and media appliances. Imerge's potential has been widely recognised. Most recently, it was placed 39th in The Sunday Times' Tech Track 100 in 2002, and qualified as the 8th fastest growing technology company in the Deloitte & Touche Eastern Fast 50 Programme. A further £7,500 has been invested as part of this same commitment since the year end.

The valuation movement on the investment portfolio was a net decrease of £290,000. Of the 28 trading companies in the portfolio, three are new additions this year and, of the remainder, four have increased in value during the year, 14 have decreased and seven have been kept at their March 2002 value. The unquoted venture capital portfolio has performed relatively well with a net increase of £846,000 whilst the AIM quoted portfolio fell in value by £1,136,000. On a like-for-like basis the fall in the value of the AIM portfolio was 36%.

There were two full realisations from the AIM quoted portfolio during the year, CRC Group plc and Honeycombe Leisure plc, and a partial realisation of your Company's holding in Spring Grove Property Maintenance plc. Although these realisations resulted in a net loss of £40,000 on carrying value in the year, they represented a profit on historic cost of £127,000. There were no realisations of unquoted investments in the year although there were a number of scheduled redemptions of Preference shares and loans. Most notably, The JDA Group Limited repaid its loan well ahead of schedule and redeemed 75% of its Preference shares. A total of £245,000 was repaid by JDA in the year including £17,000 of premium on the Preference shares.

Your Board and Yorkshire Fund Managers Limited continue to look for realisation opportunities although these remain limited in the current economic climate. Nevertheless, with a number of companies now maturing we are beginning to see some corporate activity in this area and we remain focused on achieving capital appreciation for our Shareholders.

Your Company has maintained its VCT qualifying company ratios throughout the year. These ratios are continually monitored by your Board whose policy is to maintain an adequate margin above the minimum levels to allow for contingencies and operating flexibility.

## Financial Results

The net revenue return for the year was £125,000 equating to 0.8p per share. Current returns are depressed by the earlier stage technology investments in the portfolio that still have negative distributable reserves and, therefore, cannot service the investment at this stage in their life cycle. Subject to any capital realisations that the Board may decide to distribute, this trend is expected to continue in the immediate future. However, the aim of investment in these earlier stage companies was always to generate significant capital gains in the longer term and your Board is satisfied that there remains the potential for capital growth in a number of these investments, albeit it is not possible under the BVCA guidelines to reflect this potential through increased valuations at this time.

An interim dividend of 0.25p per share was paid on 3 January 2003. In line with the previous policy of distributing the majority of revenue profits, your Board is recommending the payment of a final dividend of 0.6p per share. If approved, this will be paid on 4 August 2003 to Shareholders on the register on 20 June 2003.

The total return for the year, after taking into account capital movements on the valuation of investments and expenses allocated to capital account was a loss of £331,000, or 2.13p per share (2002: £2,049,000 loss or 13.02p per share respectively). The net asset value at 31 March 2003 was 65.3p per share (2002: 68.0p).

## Shareholder Relations

Your Board and Yorkshire Fund Managers Limited have continued to explore ways in which liquidity in your Company's shares can be improved. In an attempt to both improve information and stimulate interest in the sector we now announce net asset values quarterly and we are continuing to talk to our brokers and market makers to explore other opportunities in creating improved liquidity.

Shareholders will recall that some time ago arrangements were put in place to convert the Share Premium Account to a Special Distributable Reserve to enable the Company to purchase its own shares in the market without affecting its ability to pay tax free dividends to Shareholders. The Board believes that it will be in Shareholders' interests if the use of the Special Distributable Reserve is extended for other corporate purposes of the Company. In particular, the reserve is available to eliminate accumulated losses on the capital reserve prior to 1 April 2003 to facilitate the distribution of future capital profits on the realisation of investments. Further information can be found in the Directors' Report on page 22.

As a means of extending our communication with Shareholders, Yorkshire Fund Managers Limited is hosting a series of presentations to Shareholders of all three VCTs under its management. The first of these was held in London on 6 March and was very well attended. David Cartwright of PricewaterhouseCoopers LLP, our VCT status adviser, updated attendees on current and proposed VCT legislation and there were presentations from two unquoted portfolio companies, CCCoutdoors Limited and Cozart Bioscience Limited. The next presentation will be held in Leeds on 24 June. Further presentations are planned in London, Birmingham and Edinburgh.

## Continuation of the Company's Activities

It was stated in the Prospectus of the Company dated 28 February 1996 and similarly in the Prospectus' dated 12 February 1997 and 13 February 1998 that the directors considered it desirable that Shareholders should have an opportunity to review the future of the Company at appropriate intervals. Accordingly, the Articles of Association of the Company require that at the forthcoming Annual General Meeting, the Directors place before Shareholders a resolution to the effect that the Company continues as a venture capital trust.

In recommending this proposal the Directors have given the most careful consideration to the advantages and disadvantages for Shareholders of a continuation of the Company and the alternatives of a corporate reorganisation or a voluntary winding up. Full details are set out on pages 17 and 18 of this Report. Your Board has also recognised that any decision to wind up the Company would result in Shareholders suffering a crystalisation of any capital gains tax that had been deferred at the time of investment.

It is the Board's view that the interests of Shareholders would be best served by a continuation of the Company. This will enable the potential of the portfolio to be developed over an appropriate timescale and under the continuing supervision of your investment managers, not least in overseeing the key strategic planning decisions faced by the management teams of the investee companies. The Board accordingly recommends the Shareholders to vote in favour of the continuation of the Company as a venture capital trust and intend to support the resolution in respect of their aggregate beneficial holdings of 1.6% of the issued share capital of the Company. Yorkshire Enterprise Limited, the ultimate holding company of Yorkshire Fund Managers Limited, and a holder of 3.4% of the voting rights in the Company, has expressed its intention to support the recommendation.

## Outlook

Your Board remains encouraged by the overall development of the portfolio with a number of potential realisation opportunities beginning to present themselves. On the assumption that there are no further adverse developments in the economy and that business confidence slowly improves, we expect further progress from many of our investee companies.

Sir Andrew Hugh Smith
11 June 2003

## Investment Portfolio

This section describes the business of the companies in the investment portfolio. The website addresses of the companies are included to enable Shareholders to obtain more details on the investee companies should they wish to do so. The Company's voting rights in an investee company is the same as the percentage of equity held for each investment set out below.

## Unquoted Companies

**CAMBRIDGE COGNITION LIMITED**
**Cambridge**

**Cost £325,000**
**Valuation £244,000**

**Date of investment:**
**May 2002**

*Cambridge Cognition is a coginitive test development company specialising in computerised psychological testing. It supplies licenses and software to pharmaceutical, academic and medical customers across the globe.*

*The benefits of its testing system include the ease of transportation via a PC-based touch screen test and its high sensitivity, having been proved over a period of years.*

*This investment was made to support the management buy-out of Cambridge Cognition Limited from CeNeS plc.*

Audited accounts for the first period of trading are not yet available.

Equity held: 13.70%

Valuation basis:
Cost less 25% provision.

*More information can be found at*
www.camcog.com

**CCCOUTDOORS LIMITED**
**Sheffield**

**Cost £505,000**
**Valuation £995,000**

**Dates of investment:**
**May 1998 and March 2002**

*CCC is a retailer of outdoor clothing, equipment and travel goods. The original investment of £500,000 in May 1998 supported the buy-out from its previous owner.*

*The second investment in March 2002 was made in support of the company's first acquisition. The successful integration and expansion of the acquisition has resulted in current trading exceeding expectations. The management is looking for new opportunities for further acquisitions.*

For the 53 weeks ended 2 February 2003 audited pre-tax profits were £0.60m on turnover of £4.40m (2002: £0.30m and £3.30m respectively). At 2 February 2003 net assets were £1.89m.

Equity held: 21.50%

Valuation basis:
Price/Earnings multiple

*More information can be found at*
www.ccc-outdoors.co.uk and www.mitchellscamping.co.uk

**COZART BIOSCIENCE LIMITED**
**Abingdon**

**Cost £500,000**
**Valuation £500,000**

**Date of investment:**
**May 2001**

*Cozart is a medical diagnostics company with a range of immunoassay technologies, particularly for drugs of abuse.*

*Its growing business in point of care testing using the Rapiscan device has resulted in Cozart being awarded a major Home Office contract. This will enable police forces to use Rapiscan to carry out on the spot detection of drugs of abuse.*

*It recently announced the launch of the world's first fully integrated, on-site urine test to detect Buprenorphine within ten minutes.*

For the 18 months ended 31 May 2002 audited pre-tax losses were £1.26m on turnover of £1.82m (Year ended 30 November 2000: £0.02m and £0.88m respectively). At 31 May 2002 net assets were £1.58m.

Equity held: 6.07%

Valuation basis:
Value equating to cost.

*More information can be found at*
www.cozart.co.uk

## DENISON MAYES GROUP LIMITED
**Leeds**

**Cost £100,000**
**Valuation £Nil**

**Date of investment:**
**August 1998**

*The investment of £700,000 was provided as part of a £2.7 million package to fund the management buy-out of the company. In September 2001 an agreement was reached to sell the equity stake back to the management for a total consideration of £200,000 (which included interest arrears). The preference shares and most of the loan were written off as part of the deal. There is a residual loan of £100,000 in the company, repayable from August 2006.*

For the year ended 31 December 2001 audited pre-tax losses were £0.63m on a turnover of £2.57m (2000: £0.10m pre-tax losses and £3.00m respectively). At 31 December 2001 net assets were £0.08m.

Equity held: -

Valuation basis:
Full provision

*More information can be found at*
www.denisonmayesgroup.com

## FRESHROAST COFFEE CO. LIMITED
**Elland**

**Cost £70,000**
**Valuation £91,000**

**Date of investment:**
**July 1996**

*Freshroast Coffee Co. processes, packages and markets coffee, tea and associated drinks.*

*Recent performance remains relatively steady.*

*A company re-engineering programme accompanied the sale of the on-site vending machine operation. This has allowed the management to re-focus on the core business.*

For the year ended 31 December 2001 audited pre-tax losses were £0.09m on turnover of £3.01m (2000: pre-tax profit of £0.08m and £3.30m respectively). At 31 December 2001 net assets were £0.30m.

Equity held: 13.00%

Valuation basis:
Price/Earnings multiple


## IMAGES AT WORK LIMITED
**Salisbury**

**Cost £533,000**
**Valuation £533,000**

**Date of investment:**
**March 1999**

*Images at Work supplies and manages corporate clothing contracts to a portfolio of around 200 large and small clients throughout the UK including a number of blue chip companies.*

*Continued success in obtaining new contracts both within the fire services and constabulary sectors reflects the markets growing perception of Images' brand as one synonamous with providing cost efficiencies and quality of service.*

For the year ended 30 September 2002 audited pre-tax profits were £0.38m on turnover of £5.21m (2001: £0.07m and £2.50m respectively). At 30 September 2002 net assets were £0.77m.

Equity held: 33.33%

Valuation basis:
Value equating to cost

*More information can be found at*
www.iaw.co.uk

## IMERGE LIMITED
**Cambridge**

**Cost £410,000**
**Valuation £160,000**

**Dates of investment: December 2000, August 2001, April 2002, August 2002, January 2003 and February 2003**

*Imerge is a recognised leader in Internet-connected hard disk-based audio systems. Its own products have been selling globally for over two years to critical acclaim.*

*Its XiVA™ software and hardware reference designs have now been licensed to a significant number of high quality audio brands including Marantz, Revox and Elan who are using them to gain entry to the digital audio market.*

*Imerge's potential has been widely recognised. Most recently it was placed 39th in the Sunday Times' Tech Track 100 for 2002.*

For the year ended 31 December 2001 audited pre-tax losses were £4.35m on turnover of £1.45m (2000: £2.48m and £0.81m respectively). At 31 December 2001 net liabilities were £1.02m.

Equity held: 2.22%

Valuation basis:
Full provision on equity holding.
Convertible loan held at cost.

*More information can be found at*
www.imerge.co.uk

## INTERNATIONAL RESOURCES GROUP LIMITED
**London**

**Cost £ 47,000**
**Valuation £600,000**

**Dates of investment: February 1998 and March 2000**

*IRG was set up to acquire Odgers International Limited, one of the oldest recruitment firms in London. The company recruits high calibre personnel for prestigious clients, which include major institutions as well as fast growing entrepreneurial businesses. It is one of the top ten search firms with a reputation for providing recruitment successes across a wide range of sectors.*

*The company is continually gaining market share in a market which is proving difficult for some of its major competitors.*

For the year ended 31 December 2001 audited pre-tax losses were £0.02m on turnover of £21.39m (2000: £1.10m and £16.30m respectively). At 31 December 2001 net assets were £1.39m.

Equity held: 6.55%

Valuation basis:
Price/Earnings multiple

*More information can be found at*
www.odgers.com

## THE JDA GROUP LIMITED
**Leeds**

**Cost £ 72,000**
**Valuation £162,000**

**Date of investment: September 2000**

*JDA continues to be one of the UK's most experienced and well-established relationship marketing agencies. It remains a top 20 agency for multi-disciplinary expertise and with over 18 years industry experience they have been able to provide successful marketing solutions for clients such as Royal Mint, British Telecom, HBOS, TUI Group and Lakeland.*

*The company continues to gain new clients in various sectors with a steady prospective order book being evident throughout the remainder of the year.*

For the period ended 31 December 2001 audited pre-tax profits were £0.60m on turnover of £15.4 million. At 31 December 2001 net assets were £0.90m.

Equity held: 15.00%

Valuation basis:
Price/Earnings multiple

*More information can be found at*
www.jda.co.uk

**PRIMAL PICTURES LIMITED**
**London**

**Cost £500,000**
**Valuation £500,000**

**Date of investment:**
**March 2001**

*Primal develops and markets high quality anatomical CD-ROMs aimed at healthcare professionals ranging from medical students to orthopaedic surgeons. Images are derived from digital X-ray and magnetic resonance imaging data enabling the use of completely authentic anatomical data.*

*The company continued to develop its anatomy products during the period and successfully launched several new titles to the market. It has grown both in size and status, receiving a number of prestigious awards from recognised industry bodies.*

For the year ended 31 December 2002 audited pre-tax losses were £1.35m on turnover of £1.67m (2001: £1.20m and £1.60m respectively). At 31 December 2002 net assets were £0.34m.

Equity held: 3.85%

Valuation basis:
Material arms-length transaction.

*More information can be found at*
www.primalpictures.com

**RAY ENGINEERING COMPANY LIMITED**
**Bristol**
**Cost £535,000**
**Valuation £267,000**

**Dates of investment:**
**November 1997, November 1998**

*Ray Engineering designs and manufactures high quality knobs, handles and hand wheels used in machinery and equipment in the engineering market and claim to be the UK's number one in this specialist field.*

*Following the introduction of its new product lines, it has undertaken a rigorous international exhibition schedule as part of its marketing campaign.*

For the year ended 31 December 2001 audited pre-tax profits were £0.10m on turnover of £2.50m (2000: £0.03m and £2.60m respectively). At 31 December 2001 net assets were £0.60m.

Equity held: 36.94%

Valuation basis:
Cost less 50% provision

*More information can be found at*
www.rencol.com

**RMF ENGINEERING LIMITED**
**Dinnington**

**Cost £90,000**
**Valuation £90,000**

**Date of investment:**
**February 1997**

*RMF is one of Europe's leading manufacturers of corrosion resistant chemical plant and equipment, specialising in providing tailor made solutions to individual problems.*

*The company have recently been awarded the Chinese M Stamp which allows it to capitalise on lucrative contracts for the supply of process equipment to the Chinese chemical and petrochemical industries.*

For the year ended 31 December 2001 audited pre-tax profits were £0.32m on a turnover of £4.69m (2000: £0.07m and £3.20m respectively). At 31 December 2001 net assets were £0.70m.

Equity held: 25.00%

Valuation basis:
Value equating to cost.

*More information can be found at*
www.rmf-engineering.co.uk

## SHEET PILING (UK) LIMITED
**Preston**

**Cost £ 500,000**
**Valuation £1,076,000**

**Date of investment:**
**June 2000**

*From its headquarters in Preston, Sheet Piling carries out contracts throughout the UK for a variety of sectors. The investment of £500,000 supported the management buy-out from Allen plc.*

*Sheet Piling's recognition of the need for silent, vibration-free pile insertion continues to attract numerous contract opportunities. Their 'state of the art' equipment combined with environmentally acceptable practise has led to continued performance ahead of targets.*

For the year ended 27 May 2002 audited pre-tax profits were £0.45m on turnover of £7.72m (period ended 27 May 2001: £0.30m and £6.00m respectively). At 27 May 2002 net assets were £0.93m.

Equity held: 36.00%

Valuation basis:
Price/Earnings multiple

*More information can be found at*
www.sheetpilinguk.com

## SPECIAL MAIL SERVICES LIMITED
**Northampton**

**Cost £300,000**
**Valuation £225,000**

**Date of investment:**
**September 2002**

*The investment, which supported a management buy-out/buy-in of Special Delivery Services Limited was completed on 10 September 2002.*

*The period following investment has seen considerable change within the company. This has resulted in an expanded infrastructure supporting higher sales. The company has extended its depot network as planned and is adding a further two depots in London to cope with the increasing volume of activity. This rapid expansion has required some minor changes to the funding plan.*

Audited results for the first period of trading are not yet available.

Equity held: 2.49%

Valuation basis:
Cost less 25% provision.

*More information can be found at*
www.sdsco.com

## T & D PACKAGING LIMITED
**Bradford**

**Cost £750,000**
**Valuation £875,000**

**Date of investment:**
**February 2000**

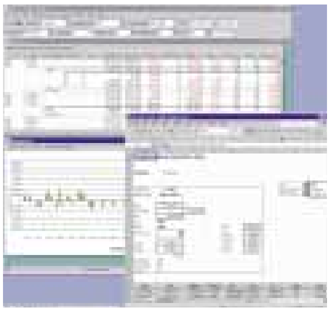
*T & D is one of the UK's leading producers and distributors of industrial packaging, principally metal drums. The investment of £750,000 in February 2000 supported the management buy-out. A rationalisation programme was successfully implemented during 2002 to transfer all operations on to one site, retaining capacity, reducing overheads and improving customer response times.*

For the year ended 31 January 2002 audited pre-tax profits were £0.01m on a turnover of £11.12m (period ended 31 January 2001: £0.40m and £13.20m respectively). At 31 January 2002 net assets were £1.58m.

Equity held: 15.22%

Valuation basis:
Material arms-length transaction.

*More information can be found at*
www.tdpackaging.com



**TAMESIS LIMITED**
**London**

**Cost £350,000**
**Valuation £175,000**

**Date of investment:**
**July 2001**

*Tamesis develop and sell real-time trading software for investment banks. This provides its clients with a capability that can change the way in which they view their own risk position and, therefore, significantly enhance the way in which they handle their investment business.*

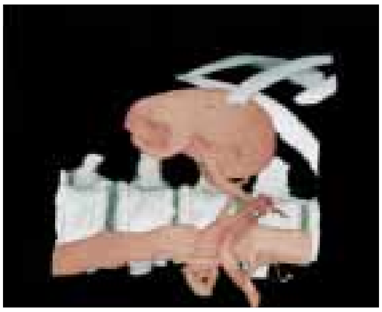
*The company has recently signed a significant contract with a major investment bank.*

For the year ended 31 December 2001 audited pre-tax losses were £1.11m on turnover of £1.00m (2000: pre-tax profits of £0.10m and £1.66m respectively). At 31 December 2001 net assets were £1.70m.

Equity held: 3.72%

Valuation basis:
Cost less 50% provision.

*More information can be found at*
www.tamesis.com



**VOXAR LIMITED**
**Edinburgh**

**Cost £263,000**
**Valuation £263,000**

**Dates of investment:**
**September 2000 and February 2002**

*Voxar is an industry leader in the development of software products for visualising medical scanner data. It has developed software for generating high speed three dimensional computer images on a standard PC. This brings the benefits of more accurate diagnosis and better communication of results into everyday usage in the radiology department. The company is also developing computerised applications for major vendors in the medical imaging market.*

*In December 2002 Voxar opened its new North American headquarters in Boston, Massachusetts, as part of its global sales strategy. It was recently ranked at 33 in the prestigious Deloitte Touche Tomatsu European Technology Fast 500, making it the fastest growing medical imaging business in Europe.*

For the 17 months ended 31 December 2002 audited pre-tax losses were £2.16m on turnover of £5.13m (Year ended 31 July 2001: £1.39m and £0.57m respectively). At 31 December 2002 net assets were £1.02m.

Equity held: 1.29%

Valuation basis:
Value equating to cost.

*More information can be found at*
www.voxar.com

**WESTON ANTENNAS LIMITED**
**Dorchester**

**Cost £500,000**
**Valuation £Nil**

**Date of investment:**
**April 2001**

*Weston Antennas designs, manufactures and installs large diameter satellite dishes for the communications market. Since the manufacture of its first antenna back in 1987 the company has installed its products across four continents and has opened an office in Denton, Texas. The company has recently received further venture capital funding and has appointed an experienced chairman to develop the business.*

For the year ended 31 March 2001 audited pre-tax losses were £1.20m on turnover of £0.78m (2000: £0.28m and £1.1m respectively). At 31 March 2001 net assets were £1.39m.

Equity held: 1.57%

Valuation basis:
100% provision.

*More information can be found at*
www.westonantennas.com

## AIM Quoted Companies

**BOND INTERNATIONAL SOFTWARE PLC**
**Worthing**
**Cost £53,000**
**Valuation £11,000**

**Date of investment:**
**December 1997**

*Bond International has over thirty years experience in the development and supply of software, support and consultancy services to the recruitment and personnel industries. It has developed its own proprietoral software known as ADAPT which is now firmly established as the world's leading staffing software.*

*Bond has experienced difficult trading throughout 2002, and profits warnings brought the appropriate downwards re-rating in line with the rest of the market. The company should be well placed to benefit from any recovery in the recruitment market.*

For the year ended 31 December 2002 audited pre-tax losses were £1.97m on turnover of £6.40m (2001: pre-tax profits of £1.30m and £11.40m respectively). At 31 December 2002 net assets were £2.63m.

Equity held: 0.60%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.bondadapt.com

**CARDPOINT PLC**
**Lytham St Annes**

**Cost £294,000**
**Valuation £319,000**

**Date of investment:**
**June 2002**

*Cardpoint is one of the UK's leading independent providers of ATMs (cashpoints). Our investment supported the company on its debut on to AIM in June 2002 to provide the funding required to build a large population of machines.*

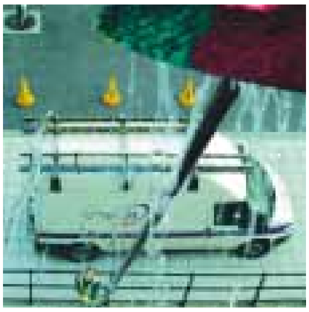
*The company has reported key performance indicators ahead of expectations during the roll out phase, which has, as expected, kept it operating at a loss.*

For the year ended 30 September 2002, audited pre-tax losses were £0.76m on turnover of £3.10m (2001: £1.27m on £0.94m respectively). Loss per Ordinary share was 5.30p (2001: 20.73p) and no dividends were paid in either year. At 30 September 2002 net assets were £1.50m.

Equity held: 3.13%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.cashcardservices.co.uk



**CONNAUGHT PLC**
**Sidmouth**

**Cost £162,000**
**Valuation £301,000**

**Dates of investment:**
**November 1998, July 1999 and January 2001**

*The company operates as a facilities management and integrated property services group, engaged in building maintenance, light refurbishment, commercial fitting-out and electrical work.*

*The company progressed well in 2002 to report 6% turnover growth and 23% profit growth. The business of Gasforce was acquired during the year, giving opportunities for cross-selling, and for economics of scale to boost margins.*

For the year ended 31 August 2002 audited pre-tax profits were £3.33m on turnover £100.94m (2001: £2.70m and £95.7m respectively). Earnings per share was 21.7p with a full year dividend per share of 7.5p (2001: 16.5p and 6.87p respectively). At 31 August 2002 net assets were £27.90m.

Equity held: 1.10%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.connaught.plc.uk

**FIRST ARTIST CORPORATION PLC**
**Wembley**

**Cost £300,000**
**Valuation £ 41,000**

**Dates of investment:**
**March 2001 and December 2001**

*An investment in First Artist was made alongside several other institutional investors when this company's shares were placed on the OFEX market in March 2001. A subsequent further investment was made in December 2001, supporting the acquisition of FIMO, a European based football agency, when the shares moved on to AIM.*

*The business has suffered badly from the new football transfer rules and from the collapse of Kirch and then ITV Digital.*

For the year ended 30 June 2002 audited pre-tax profits were £0.64m on turnover of £6.70m (2001: £0.70m and £1.70m respectively). At 30 June 2002 net assets were £16.06m.

Equity held: 1.06%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.1startist.com


**LANDROUND PLC**
**Chester**

**Cost £283,000**
**Valuation £200,000**

**Date of investment:**
**August 1999**

*Landround specialises in creating and servicing innovative low cost, high value, travel and holiday themed promotions for hundreds of leading companies. Its travel rewards programme, "Buy and Fly," is now well established.*

*Travel product sales have been affected by world events as diverse as September 11, BSE and the hostilities in the Middle East. It is believed that, given a period of less turbulence, confidence will return to the buying public, with the consequent benefit to trading performance.*

For the year ended 30 September 2002 pre-tax profits were £0.75m on turnover of £7.07m (2001: £0.06m and £7.30m respectively). At 30 September 2002 net assets were £3.74m.

Equity held: 2.60%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.landround.com

OASIS
Healthcare Plc

**OASIS HEALTHCARE PLC**
**Norwich**

**Cost £392,000**
**Valuation £222,000**

**Dates of investment:**
**July 2000 and July 2001**

*Oasis Healthcare owns and operates dental practices throughout the UK providing both NHS and private treatment. The company's strategy has built a national estate of 124 high quality Oasis-branded dental practices with an annualised turnover of £70m. Troubles at other corporate dental practices have fed adverse sentiment towards Oasis. In addition there was minor adverse publicity surrounding the acquisition of Dencare which caused the shares to be marked down. Operationally this had minimal effect but the share price has not yet responded.*

For the year ended 31 March 2002 audited pre-tax losses were £0.01m on turnover of £15.47m (2001: £0.40m and £8.90m respectively). At 31 March 2002 net assets were £11.62m.

Equity held: 2.40%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.oasis-healthcare.com

**SBS GROUP PLC**
**London**

**Cost £100,000**
**Valuation £ 4,000**

**Date of investment:**
**March 1998**

*SBS Group is a specialist international IT staffing business operating in three major geographical markets, the United Kingdom, Continental Europe and North America.*

*The company has experienced a continuing weakening in its markets but is receiving the support of its bank, and forecasts a strong recovery when the cyclical market turns round.*

For the year ended 31 August 2002 audited pre-tax losses were £2.05m on turnover of £32.09m (2001: £3.60m and £45.40m respectively). At 31 August 2002 net liabilities were £2.69m.

Equity held: 0.40%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.sbs-plc.com

**SPRING GROVE PROPERTY MAINTENANCE PLC**
**Hounslow**
**Cost £80,000**
**Valuation £98,000**

**Date of investment:**
**December 2001**

*Spring Grove's principal activity is the day-to-day provision of property maintenance services to the social housing sector within the M25.*

*Our investment was made to support continued growth expansion when the shares were quoted on AIM. Given the falls in the general markets, the share price has held up well due to the ability to deliver predictable results from long-term contracts.*

For the year ended 31 January 2002 audited pre-tax profits were £0.39m on turnover of £7.39m (2001: £0.20m and £5.40m respectively). At 31 January 2002 net assets were £2.87m.

Equity held: 2.10%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.sgpm.co.uk

**TIKIT GROUP PLC**
**London**

**Cost £225,000**
**Valuation £161,000**

**Date of investment:**
**June 2001**

*Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company also provides a range of document and knowledge management tools to the European Court of Human Rights in Strasbourg.*

*As customer IT budgets came under pressure in early 2001 the company wisely focussed on building its recurring revenue businesses which has now built to 58% of sales. This security of income and prompt cost saving measures have supported the share price.*

For the year ended 31 December 2002 audited pre-tax profits were £0.31m on turnover of £8.23m (2001: £1.10m and £9.00m respectively). At 31 December 2002 net assets were £3.56m.

Equity held: 1.70%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.tikit.com


**WARTHOG PLC**
**Cheadle**

**Cost** **£365,000**
**Valuation** **£ 99,000**

**Dates of investment:**
**January 2001 and January 2002**

*Warthog are developers of interactive entertainment software, with a focus on computer games. Flotation on AIM in 2001 has enabled the company to expand its game pipeline and portfolio whilst raising the company's profile to increase its ability to negotiate attractive development contracts with publishers and potential acquisitions.*

*Warthog has maintained its growth and profitability within a generally depressed market. However, a warning of delays in some current contracts impacting full year forecasts resulted in a share price mark down.*

For the year ended 31 March 2002 audited pre-tax profits were £0.49m on turnover of £8.86m (2001: £0.30m and £3.80m respectively). At 31 March 2002 net assets were £7.47m.

Equity held: 1.70%

Valuation basis:
Quoted mid-market price

*More information can be found at*
www.warthog.co.uk

I am pleased to report that the net asset value of the Company has been largely stable during a period which has seen particularly poor performances in the financial markets and considerable uncertainty and disruption. This performance serves to underline the longer term nature of the venture capital investment process and the potential advantages of investing an appropriate portion of personal assets in the sector.

Details of the investments in your Company's portfolio are set out on pages 4 to 13. We have also set out details of valuations and the basis of these valuations.

## Investment Activity

As has been widely reported in the media, the last year has been difficult for all financial markets and funds regardless of specialism or geography. The resulting reduction in corporate activity, generally, had an adverse impact on the venture capital industry. At the start of the year your Company was effectively fully invested, adequately meeting the VCT qualification ratios. With some of the surplus cash held for known expenses and potential re-investments, Yorkshire Fund Managers Limited was able to be selective in recommending new investments to the Board.

Investments in the year ended 31 March 2003:

| | AIM | | Unquoted | | Total | |
|---|---|---|---|---|---|---|
| | No | £000 | No | £000 | No | £000 |
| New | 1 | 249 | 2 | 625 | 3 | 874 |
| Existing | 1 | 50 | 1 | 104 | 2 | 154 |
| | 2 | 299 | 3 | 729 | 5 | 1,028 |

Your Company has a small diversified portfolio of AIM-quoted investments and during the year added a new investment of £249,000 in Cardpoint plc on its admission to the market. With some concerns about the prospects of the telecoms related sector, we were able to dispose of our holding in CRC Group plc. Likewise, in anticipation of poor reports from the leisure sector, we took the opportunity to sell our holding in Honeycombe Leisure plc, a north-west based licensed trade business. Small disposals were also made in Spring Grove Property Maintenance plc when its price strengthened sharply six months after flotation. Yorkshire Fund Managers Limited might well have wished to recommend other disposals, but the generally cautious financial climate disproportionately impacted on the liquidity of Small Cap stocks.

Further investments included £103,000 in Imerge Limited, in support of continued technical development and sales expansion. An investment of £325,000 was syndicated with other funds to effect the management buy-out of Cambridge Cognition Limited from CeNeS plc. The other major investment of £300,000 was made in Special Mail Services Limited (SMS). SMS is based in Northampton and operates a specialised and safe delivery service for packages requiring a degree of security. One of its major markets is the delivery of the new generation of credit cards. The investment was part of a £5.5 million equity package to enable the MBI/MBO of SMS to take place.

In addition to the various disposals, your Company has received cash from the scheduled repayment of loans and redemption of Preference shares. At 31 March 2003, there was a total of £1.8m of liquid resources in the form of cash and Gilt investments available for selective investment.

## Portfolio Performance

This year, whilst 11 unquoted companies remain above or at cost it has been necessary to make provisions against some other investments. The net valuation movement arising in the year was £290,000 and can be analysed as:

| | £000 |
|---|---|
| Increase to reflect earnings growth in the unquoted portfolio | 1,235 |
| Provisions for underperformance on the unquoted portfolio | (621) |
| Arms length third party valuations | 232 |
| Movement in AIM stock valuations | (1,136) |
| | (290) |

Whilst the AIM portfolio has largely reflected the general downturn in the markets, the unquoted portfolio has returned to growth increasing in value by £846,000. With prudence uppermost in mind given the prevailing economic conditions this, nevertheless, represents, on a like-for-like basis, a 13% increase in valuation to £6.89m. The guidelines used for these valuations are set out on page 19 of this report.

Of the active unquoted portfolio, nine investments have shown evidence of progress during the year, five are stable and four are underperforming or unlikely to show a material return to the Fund.

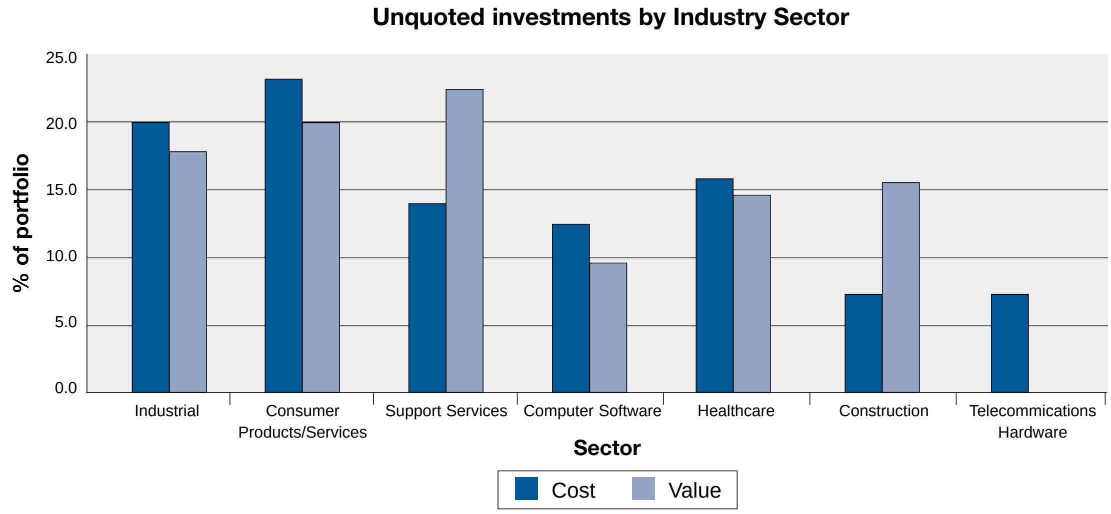
Market conditions remain uncertain. However, we have seen, since the year end, some return of confidence, with a modest increase in corporate acquisition and offers to buy-out your Company's stake in some of the more mature investments in the portfolio.

## AIM Portfolio

The investments in AIM quoted businesses represent 20.1% of the cost of the venture capital portfolio and 14.8% of the initial capital of the Fund. The Board's policy is to have no more 20% of the initial capital of the Fund invested in AIM stocks. The Managers are always alert, not only to any new issues which meet the portfolio objectives, providing sectorial diversification, solid growth and possibly a yield, but also to opportunities for divestment. In this regard, since the year end, we have been able to realise a profit of £47,000 from the sale of part of our holding in Cardpoint plc.

## Sector Analysis

Your Company has invested in businesses across a broad range of industry sectors. The sector performance is set out in the table below.




Consumer products/services remains one of the largest sectors both by cost and value. The general performance of this section of the economy has been mixed during the year and the performance of our investees in the sector has reflected this. However, the performance of CCCoutdoors Limited has been particularly encouraging.

The performance of Images at Work Limited, International Resources Group Limited and The JDA Group Limited have contributed to the improvement in the support services sector. Underperformance at SMS during the poor weather conditions early in 2003 has required a small provision to be taken. In the construction sector, Sheet Piling (UK) Limited has performed well. Within the healthcare sector, valuation guidelines do not allow us to increase the valuation of Cozart Bioscience Limited even though the business continues to perform strongly. These guidelines have required us to take a small provision against our investment in Cambridge Cognition Limited.

Valuations in the telecoms, software and industrial products sectors remain below cost, although performance in general during the year has shown a marginal improvement.

## Summary and Outlook

The major emphasis by your Investment Adviser during the year has been to work with portfolio companies to encourage and assist them to improve and build their businesses, and ultimately our valuations, within an extremely competitive environment and in a period of economic uncertainty. Most of the portfolio companies have risen to the challenge with the result that the unquoted portfolio, as a whole, has increased in value. During this process, the investment team at Yorkshire Fund Managers Limited has been recommending a reduced number of new and follow on investments to the Board commensurate with available funds.

The overall result has been that net asset value per share, before the payment of dividends, has been only slightly reduced during the year from 68p to 66.2p. For Shareholders, the total return per share, after adding back cumulative dividends, has been 84.6p against an initial investment of 80p. This is broadly in line with benchmarks set out in the Directors' Remuneration Report on pages 27 and 28 of this report.

We are now entering a period where some of the uncertainty built up at the end of 2002 and earlier in 2003 has been removed. With some confidence returning to the UK Stock Markets, we may even see a gradual improvement in performance of the AIM portfolio. There are also some early signals of increased corporate activity which over the medium-term should result in opportunities not only to achieve realisations at greater value but will allow other portfolio companies to improve their positions within their own markets. Yorkshire Fund Managers Limited will continue to work with these businesses to achieve best value and returns to Shareholders.

Philip S. Cammerman
Yorkshire Fund Managers Limited
11 June 2003

# CONTINUATION OF THE COMPANY

The Notice of the Annual General Meeting which can be found on page 48 contains an Ordinary Resolution to the effect that the Company shall continue as a VCT. If the resolution is passed a similar resolution will be placed before Shareholders at the Annual General Meeting to be held in 2008. In the event that the resolution is not passed the Board shall convene an Extraordinary General Meeting within six months to consider proposals for either the re-organisation or voluntary winding up of the Company. In the event of any of these subsequent proposals not being passed the Company shall continue as a VCT.

The Directors set out below why they consider it to be in the Shareholders' interests for the Company to continue as a VCT.

- We believe that the portfolio includes investments that have significant potential for future capital growth. Through its portfolio management team, Yorkshire Fund Managers Limited is actively working with a number of investee companies to develop strategies to achieve this growth and realise their potential. Continuing the Company would enable this potential to be developed and for realisations to be crystallised at improved values when corporate activity in general has improved.

- The relatively short time frame for realisations envisaged in a winding up would, in many cases, result in our venture capital investments being sold for less than best value. Firstly, minority holdings of unquoted venture capital investments are, by their very nature, illiquid. Secondly, the pressure to sell when purchasers know your Company is being liquidated will result in your Company being seen as a forced seller. Thirdly, many of the investments would not have reached a state of development at which an exit would be appropriate.

- Corporate activity currently remains at a low level because of the uncertainty surrounding the UK and world economies. This climate has contributed to the poor stock market conditions for new flotations. Under such difficult circumstances the realisation of enhanced value from many of the investments will not crystallise for some time. Therefore, it is clear to the Board that, given the current stage in the economic cycle, now is not the most appropriate time to sell the majority of businesses in the portfolio.

- Some of the existing businesses in your Company's portfolio are at an early stage in their development and may require further rounds of finance if their longer term potential is to be achieved. Your Company, if it is in the course of a liquidation at that time, is unlikely to be able to subscribe for its pro-rata share of any follow-on finance. This could result in its interest in promising businesses being severely diluted, adversely affecting returns to Shareholders.

- Under the VCT legislation, capital, as well as revenue, profits can be distributed by way of a tax free dividend. It is your Board's intention to pay out realised capital profits to Shareholders while retaining the original cost of investment to reinvest in new venture capital opportunities.

- Your Company will be able to continue to invest selectively in new venture capital opportunities. We believe this to be particularly attractive in current market conditions where entry valuations have fallen significantly to more realistic levels and provide excellent opportunities for Shareholder growth.

- Shareholders who benefited from the deferral of capital gains tax when they originally subscribed for their shares will avoid crystallising the gain if the Company continues as a VCT.

- Your Investment Adviser believes that, in the short to medium-term, there will be changes in the legislation affecting the operation of VCTs. Such new legislation may allow a wider range of options to be presented to Shareholders in the future.

## Conclusions and Recommendations

**The Directors, having regard to the issues set out above, unanimously recommend Shareholders to vote in favour of the resolution to be proposed at the Annual General Meeting for the continuation of the Company as a VCT.**

The Directors intend to support the resolution in respect of their aggregate beneficial holdings of 250,000 Ordinary shares representing approximately 1.6% of the issued share capital of the Company.

In addition, Yorkshire Enterprise Limited, the ultimate holding company of Yorkshire Fund Managers Limited, and a holder of approximately 3.4% of the issued share capital of the Company, has also expressed its intention to support the recommendation.

# VALUATION OF VENTURE CAPITAL INVESTMENTS

In valuing unlisted investments the directors follow the criteria set out below. These procedures comply with the British Venture Capital Association guidelines for the valuation of venture capital investments.

- Investments completed within 12 months prior to the date of valuation are normally valued at cost except that adjustments are made when there has been a material change in the trading circumstances of the company or a substantial movement in the market.

- Provisions against cost, in bands of 25%, are made at any stage in a company's development if performance shows a material deviation from plan. Provisions are initially applied to the equity element of an investment as this carries the greater risk.

- Whenever practical, investments will be valued by reference to a material arm's length transaction or a quoted price. AIM quoted investments are valued at their mid-market price at the balance sheet date less a discount, where appropriate, to reflect any particular restrictions or significant holdings in relation to the issued share capital.

- Mature companies are valued by applying a multiple to their fully taxed prospective earnings. The multiple is derived by taking an average of the prospective multiples of the most comparable listed companies and adjusting for differences in business mix, size, trading record and prospects. This multiple is discounted by at least 25% for unmarketability. In the event that there are no comparable listed companies, the prospective multiple of the most relevant sub-sector of the Financial Times Actuaries Share Indices is used and a similar discount applied.

- To obtain a valuation of the total Ordinary share capital held by management and the institutional investors, the value of Preference share capital is deducted from the valuation of the entire share capital. The effect of any performance-related mechanisms is taken into account in determining the split of Ordinary share capital between management and institutions.

- Except when provisions have been applied as outlined above, Preference shares are valued at cost. When a redemption premium has accrued this will only be valued if there are reasonable prospects of it being paid.

- Preference shares which carry a right to convert into Ordinary share capital are valued at the higher of the cost basis and the Price/Earnings basis, both described above.

- Debenture and loan stock are valued on the same basis as Preference shares.

# DIRECTORS

**Sir Andrew Colin Hugh Smith** (71), following a career at the Bar and in industry he became a partner of Capel Cure Myers in 1970, senior partner in 1979 and left the firm in 1988 to become chairman of the London Stock Exchange. He retired from the Exchange in 1994. He is currently chairman of British Smaller Technology Companies VCT plc and British Smaller Technology Companies VCT 2 plc.

**Christopher John Brown** (49), has worked in finance with Jaguar and Lucas and in general management with GEC and FKI Babcock. He co-led the management buy-in of David Brown Group Plc in January 1990 and was chief executive until the acquisition by Textron Inc in 1998. He is currently non-executive chairman of Robotic Technology Systems plc and a non-executive director of McCleod Russel plc. He is a director of Seabeam Airways Limited and Seabeam Partners Limited.

**Philip Simon Cammerman** (61), has over 20 years of industrial experience in engineering and hi-tech industries and has worked in both the USA and the UK. He has spent the last 17 years in the venture capital industry and is managing director of Yorkshire Fund Managers Limited. He has been responsible for a wide range of venture capital deals in a variety of industries including hi-tech, software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a director of British Smaller Technology Companies VCT plc and British Smaller Technology Companies VCT 2 plc.

**Richard Last** (45), qualified as a chartered accountant with Coopers & Lybrand and is chief executive of Lynx plc, a computer software, systems and services group. He is chairman of Xpertise Group plc, an AIM quoted IT training group, is a non-executive director of Pat Systems plc, an AIM quoted IT software company, British Smaller Technology Companies VCT plc and British Smaller Technology Companies VCT 2 plc and Tamesis Limited following our investment in this company.

**Clive William Leach CBE** (68), has worked in the UK television and advertising industry for 30 years. He is former chairman and chief executive of Yorkshire Tyne-Tees Television plc. He is currently chairman of Yorkshire Enterprise Limited, Yorkshire Fund Managers Limited and Gabriel Communications Limited. He is also chairman of the West Yorkshire Learning and Skills Council and the Yorkshire Cultural Consortium and deputy chairman of the Yorkshire Regional Assembly. He is a non-executive director of Saint Martins Management Limited and Opera North Limited.

**Robert Lindemann** (52), worked for the Bank of Boston then with Ernst & Young as a management consultant before moving to Security Pacific Hoare Govett Equity Ventures, the UK unquoted equity division of the Security Pacific Group, and was involved in all its investment activity. Since 1991 he has been joint managing director of Equity Ventures Limited.

**Robert Martin Pettigrew** (58), a founding director of The Generics Group of companies, has extensive experience in the commercial exploitation of new technologies. He has technical expertise in opto-electronics and fibre optics, optical component and system design, lasers and laser applications. He is a non-executive director of British Smaller Technology Companies VCT plc and British Smaller Technology Companies VCT 2 plc and Voxar Limited, an investee of the Company.

**John Junior Seed** (64), worked in the electricity industry for nearly 40 years. As deputy chairman, he steered South Western Electricity through privatisation and was appointed chief executive of that company in 1992. He resigned following the sale of South Western Electricity to Southern Investments UK Plc the wholly owned subsidiary of The Southern Company USA. He is a non-executive director of United Utilities plc, Fraser Nash Consultancy Limited and Waste Power Limited.

**Secretary and Registered Office**
James Ernest Peter Gervasio LL.B.
Saint Martins House
210-212 Chapeltown Road
Leeds
LS7 4HZ

**Registered No: 3134749**

## For the Year Ended 31 March 2003

The Directors present their report and audited accounts of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2003.

## Principal Activity and Business Review

The Company is an investment company as defined in Section 266 of the Companies Act 1985. The Company operates as a venture capital trust and has been approved by the Inland Revenue as an authorised venture capital trust under Section 842AA of the Income and Corporation Taxes Act 1988. It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988.

The revenue account for the year is set out on page 30.

A review of the Company's operations is given in the Chairman's statement on pages 2 to 3 and the Investment Adviser's Review on pages 4 to 16. In the context of the economic factors and market conditions prevailing during the year, the Directors consider the result for the year and the financial position at the end of the year to be satisfactory.

## Results and Dividends

The revenue return for the year after taxation amounted to £125,000 (2002: £323,000).

The Directors recommend the payment of a final dividend of 0.6p per share. A resolution to this effect will be proposed at the Annual General Meeting to be held on 11 July 2003.

The net asset value per Ordinary share at 31 March 2003 was 65.3p (2002: 68.0p). The transfer to reserves is given in note 14.

## Share Capital and Purchase of Own Shares

On 2 April 2002 the Company purchased for cancellation under existing authority granted by the Shareholders 100,000 Ordinary shares of 10p each in the market, representing 0.6% of the called-up share capital at that date, at a price of 45p per share.

On 1 July 2002 the Company purchased for cancellation under existing authority granted by the Shareholders 50,000 Ordinary shares of 10p each in the market, representing 0.3% of the called-up share capital at that date, at a price of 38p per share.

On 31 July 2002 the Company purchased for cancellation under existing authority granted by the Shareholders 15,000 Ordinary shares of 10p each in the market, representing 0.1% of the called-up share capital at that date, at a price of 40p per share.

On 22 January 2003 the Company purchased for cancellation under existing authority granted by the Shareholders 25,000 Ordinary shares of 10p each in the market, representing 0.2% of the called-up share capital at that date, at a price of 45p per share.

## Substantial Shareholding

Yorkshire Enterprise Limited, the ultimate holding company of Yorkshire Fund Managers Limited which acts as the Investment Adviser and performs administrative and secretarial services to the Company, held 3.4% of the issued share capital at the date of this report. The Directors are not aware of any other substantial shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

## Creditor Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those items. (Further details are given in note 11).

## Fixed Assets

Movements on investments held as fixed assets are shown in note 8.

## Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 48 of these financial statements.

This year's AGM will be held on 11 July 2003. The Notice of Meeting is circulated not less than 20 business days before the AGM in compliance with the recommendation contained in the Combined Code.

The Board will be present at the AGM and Shareholders will be given the opportunity to ask questions. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the AGM.

As well as the Ordinary business of the meeting, including the resolution to continue as a venture capital trust (further details of which can be found at pages 17 and 18 of this report), a resolution will be proposed as special business to renew the authority of the Company to purchase its own shares. Occasional market purchases by the Company of its own shares provide a measure of liquidity in the market for the Company's shares and can enhance the net asset value per share for the Company's remaining Shareholders. The resolution proposes to renew the power of the Company to purchase its own shares up to a maximum of 1,551,783 being 10% of the issued share capital as at 31 March 2003. The Company has been advised that an amendment to the Articles of Association should be made to facilitate these arrangements. Article 142 of the existing Articles of Association of the Company prohibits the company from treating sums standing to the credit of its capital reserve as profits available for distribution. The requirement to have this restriction has now been removed by section 266 (2A) of the Companies Act 1985. In order to facilitate and allow the Company added flexibility in the buy back of its shares the Board believes that this restriction should now be removed from the Company's Articles of Association.

## Use of Special Distributable Reserve

Following the cancellation of the Company's share premium account which was approved by Shareholders and the Court in 1999 the special reserve created upon such cancellation has only been available for the purpose of purchasing the Company's shares. The special distributable reserve may also be used for other corporate purposes including the elimination of accumulated losses on the Company's capital reserve and thereby facilitating the distribution of future capital profits to Shareholders. However, the Company is currently an investment company as defined by Section 266 of the Companies Act 1985 which prohibits the distribution of capital profits the Company will need to revoke its investment company status if it is to be permitted to distribute future capital profits.

A consequence of revocation of investment company status would be that the Company would be required to prepare accounts in accordance with the requirements of Schedule IV of the Companies Act 1985 and not in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies' as is currently the case. The main effect of this change is that the Company would present a profit and loss account instead of a statement of total return. In addition, all realised gains and losses, including those arising from the disposal of investments, would be included in the profit for the year and any unrealised capital gains would be exluded from the profit for the year.

## Independent Auditors

Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership from 1 January 2003, PricewaterhouseCoopers resigned as auditors on 7 January 2003 and the directors appointed the new firm PricewaterhouseCoopers LLP as auditors. A resolution to reappoint PricewaterhouseCoopers LLP will be put to the Shareholders at the Annual General Meeting.

## VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements to venture capital trusts. PricewaterhouseCoopers LLP reviews new investment opportunities as appropriate and carries out regular reviews of the Company's investment portfolio.

## Post Balance Sheet Events

Significant events including venture capital investments made following the year-end are set out in note 22 to the financial statements.

## Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They 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. The financial statements are published at www.yorkshirefundmanagers.co.uk, which is a website maintained by the Company's Investment Adviser. The work carried out by the auditors does not involve consideration of the maintenance and itegrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occured to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

## Statement of Corporate Governance

The Board is committed to the principle and application of sound Corporate Governance and confirms that the Company has taken appropriate steps, relevant to its size and operational complexity, to comply with, *The Principles of Good Governance and Code of Best Practice* (the "Combined Code").

The Board has complied throughout the year, and up to the date of this report, with Section 1 of the Combined Code except for those provisions relating to the appointment of a recognised senior independent non-executive director and those relating to the establishment of an independent Remuneration or Nomination Committee (see below).

### The Board

The Company has a Board of eight non-executive directors, five of whom are independent of the Company's Investment Adviser.

There are no executive officers of the Company. Given the structure of the Board and the fact that the Company's administration is conducted by Yorkshire Fund Managers Limited, the Company has not appointed a chief executive officer or a senior independent non-executive director.

Any new appointments to the Board will be subject to agreement by the whole Board and subsequent confirmation by Shareholders at the following Annual General Meeting. One third of all directors are subject to re-election each year. Biographical details of the three directors seeking re-election this year may be found at page 20. Due to the size of the Board and the appointment and remuneration procedures currently in place, in the Directors' opinion, there is no requirement for an independent Remuneration or Nomination Committee. The Directors' Remuneration Report may be found at pages 26 to 28.

The full Board meets at least six times per year and additionally as the need arises and has a list of matters that are specially reserved for the Board's attention.

The Directors have been appointed on terms which allow them to have access to the advice of the Company Secretary and to take independent advice at the Company's expense.

The Board confirms that procedures to implement the guidance, Internal Control: Guidance for Directors on the Combined Code ("the Turnbull Report"), were in place throughout the year to 31 March 2003 and up to the date of this report.

- The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

- The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than annually.

- There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Report and Accounts.

- The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review.

The Directors are satisfied that the systems of risk management that are in place are sufficient to comply with the terms of the Turnbull Report.

The Board considers reports on the main areas of risk facing the Company on a regular basis and reviews the systems for the management of risk no less frequently than annually.

## Internal Control

The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- A clearly defined investment strategy for Yorkshire Fund Managers Limited, the Investment Adviser to the Company. All decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Investment Adviser.

- Regular reviews of the Company's investments, liquid assets and liabilities, and revenue and expenditure.

- Regular reviews of compliance with the venture capital trust regulations to retain status.

- The Audit Committee reviews the internal control procedures adopted by the Investment Adviser and the Board approves annual budgets prepared by the Investment Adviser.

- The Board receives copies of the management accounts on a regular basis showing comparisons with budget. These include a report by the Investment Adviser with a review of performance. Additional information is supplied on request.

An Audit Committee was established on 2 May 1997 with written terms of reference. The members of the Committee are independent of the Investment Adviser and are Sir Andrew Hugh Smith, C J Brown, R Last, R M Pettigrew and J J Seed. The Committee meets at least twice during the year with a representative from the auditors being present each time. This Committee deals with matters relating to audit financial reporting and internal control systems.

The Directors acknowledge their responsibility for the Company's systems of internal control and have reviewed the effectiveness of those systems for the year to the date of this report. The Directors are of the opinion that the Company's systems of internal financial and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company. Internal control systems are designed to meet the particular risks to which the Company is exposed and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss.

## Going Concern

In accordance with the Company's Articles of Association, the Directors are required to propose a resolution that the Company continue as a venture capital trust at the forthcoming Annual General Meeting of the Company and in every fifth year thereafter.

The Board remains optimistic of the opportunities and believes that equities are currently attractively priced. Your Directors, therefore, have no hesitation in recommending that Shareholders vote for the Company to continue in its present form.

## Investment policy

The investment policy of the Company is to create a portfolio that blends a mix of companies operating in traditional industries with those that offer opportunities in the development and application of innovation.

The Investment Adviser, Yorkshire Fund Managers Limited, is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments. Once approved, further due diligence is carried out as necessary and Inland Revenue clearance is obtained for approval as a qualifying VCT investment.

The Board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from Yorkshire Fund Managers Limited as to the trading and financial position of each investee company and members of the investment team regularly attend Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT investment targets so that the Board can ensure that the status of the Company is maintained and take corrective action where appropriate.

Prior to the investment of funds in suitable qualifying companies, the liquid assets of the Company are invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to Yorkshire Fund Managers Limited, the portfolio is managed by Carr Sheppards Crosthwaite Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio which was £1,485,000 as at 31 March 2003. Government stocks are classified as current assets due to their use as temporary holdings whilst venture capital opportunities arise.

## Financial Assets

Investments made in suitable qualifying holdings predominantly comprise Ordinary shares with, in some instances, either fixed rate coupon preference shares, cumulative unsecured loan stocks or debenture loans. Each fixed asset investment is valued in accordance with the British Venture Capital Association guidelines, a summary of which is set out on page 19 of this report. Investments in fixed interest Government securities are valued at their current cost which equates to market value as at the balance sheet date. To this end, the Directors consider that the carrying value of the portfolio at 31 March 2003 and 2002 equated to its fair value.

The Company invests in financial assets to comply with the VCT legislation and provide capital growth for Shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by nature, illiquid. Therefore, realised capital gains on these investments are a medium to long-term aim.

Due to the structure of certain investments, preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company has the option of repaying earlier. In some instances the redemption carries a premium repayment.

The Board has set aside an amount of up to 20% of funds available for investment to be invested in AIM quoted companies that meet the Company's investment criteria. Where appropriate, the Board will invest relatively small amounts in new share issues of AIM quoted companies for small minority holdings. Due to the existence of a quoted share price, opportunities to realise these investments will occur on a more frequent basis than for unquoted investments. When making investments in AIM quoted companies it is the Board's intention to hold that investment for the medium-term to achieve capital growth for the Shareholders. However, the Board regularly reviews these investments so that opportunities for realisation can be acted upon at the most appropriate time.

Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

Details of financial assets held at 31 March 2003 can be found in the Investment Adviser's Report and notes 8 and 9 to these Financial Statements.

## By order of the Board

J E P Gervasio
Company Secretary
11 June 2003

The Board does not have a separate Remuneration Committee as, due to the size of the Board and the remuneration procedures currently in place, in the Directors' opinion and under The Listing Rules, there is no requirement for an independent Remuneration Committee. All fees continue to be paid to the Directors in accordance with the statements in The Company's Listing Particulars.

## Directors and their Interests

The Directors of the Company at the 31 March 2003 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as follows:

| | **Number of Ordinary shares at 31 March 2003** | Number of Ordinary shares at 31 March 2002 |
|---|---|---|
| Sir Andrew Hugh Smith | **30,000** | 30,000 |
| C J Brown | **15,000** | 15,000 |
| P S Cammerman | **15,000** | 15,000 |
| R Last | **15,000** | 15,000 |
| C W Leach CBE | **145,000** | 145,000 |
| R Lindemann | **15,000** | 15,000 |
| R M Pettigrew | **-** | - |
| J J Seed | **15,000** | 15,000 |

None of the Directors have subscribed for further shares since the year end.

None of the Directors held any option to acquire additional shares at any time during either year.

Brief biographical notes on the Directors are given on page 20. In accordance with the Company's Listing Particulars, no Director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below, and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any Director was materially interested and which was significant in relation to the Company's business. The Company does not generally offer compensation for loss of office when a Director leaves.

The Company had no employees in either year.

## Administration

Yorkshire Fund Managers Limited, of which Mr Cammerman and Mr Leach are Directors with no beneficial shareholding interest, has acted as Investment Adviser and performed administrative and secretarial duties for the Company since 28 February 1996. The principal terms of the agreement are set out in note 3 to the financial statements. Yorkshire Fund Managers Limited is authorised by the FSA.

Until 22 November 2002 Mr Pettigrew was a Director of Generics Asset Management Limited which acts as Technology Adviser to Yorkshire Fund Managers Limited pursuant to an agreement dated 25 January 1999. No notice has been given by either party to terminate this agreement.

Under the Subscription Rights Agreement dated 28 February 1996 Yorkshire Fund Managers Limited has a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to Shareholders. However, such incentive will only apply in the event that the return to Shareholders (after taking account of the effect of the incentive) is at least equal to the movement in the FTSE™ Actuaries All Share Index over the relevant period, calculated on a total return basis. No entitlement has accrued to Yorkshire Fund Managers Limited in either year under this incentive agreement.

Total Directors' remuneration for the year amounted to £75,000 (2002: £75,000) of which £55,000 (2002: £55,000) was paid to five individuals for services as Directors and £20,000 (2002: £20,000) was paid to third parties in respect of Directors' services.

The total fees paid in respect of individual Directors were as follows:

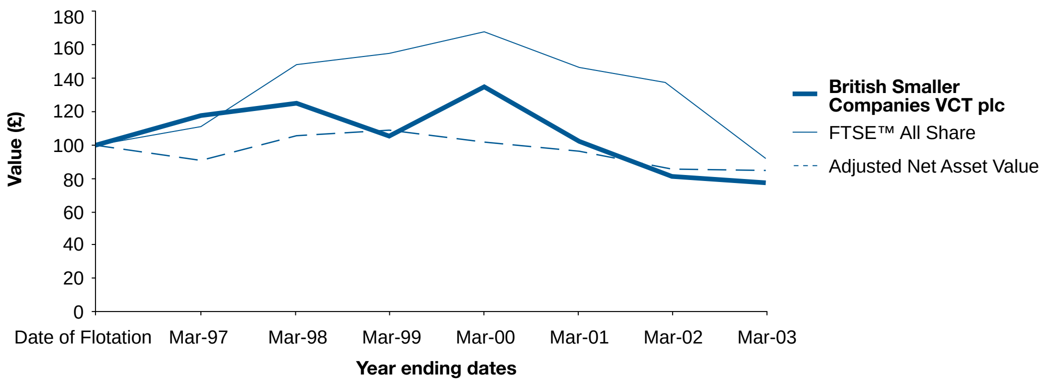
| | **2003 £** | 2002 £ |
|---|---|---|
| Sir Andrew Hugh Smith | **15,000** | 15,000 |
| C J Brown | **10,000** | 10,000 |
| P S Cammerman | **-** | - |
| R Last | **10,000** | 10,000 |
| C W Leach | **10,000** | 10,000 |
| R Lindemann | **10,000** | 10,000 |
| R M Pettigrew | **10,000** | 10,000 |
| J J Seed | **10,000** | 10,000 |

There are no Directors who are remunerated as Executive Directors. Mr Cammerman, who is the Managing Director of the Company's Investment Adviser, receives no fees for his services as a Director of the Company.

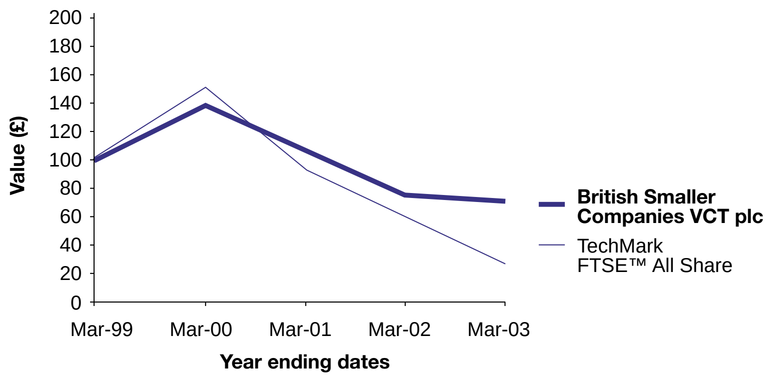
It is the Company's policy not to provide any performance emoluments, benefits in kind, any other emoluments or pension contributions to any Director. No Directors are, or have previously been, entitled to shares under any share option or long-term incentive schemes.

## Performance Graph

The graph below shows a comparison between the Company's total Shareholder return performance compared with the companies in the FTSE™ All Share Index from the date of flotation to 31 March 2003. The return from the Company is based on a Shareholder receiving basic tax relief on his or her investment at the initial outset of the Company but ignores any capital gains rollover relief. The graph looks at the value, by the end of March 2003, of £100 invested in the Company's shares with the value of £100 invested in the FTSE™ All Share Index. The Directors consider this to be the most appropriate published index on which to report on comparative performance given the Investment Adviser's performance-related incentive is based on the movement on this index. A comparison of your Company's Net Asset Value, as adjusted for dividends distributed and declared to date, is also included for information purposes.



Given the Board's intention to invest in a balanced portfolio across a range of industry sectors, particularly in recent years focusing on investing in new innovative businesses which are more technology focused, the Directors believe that a comparison with the FTSE™ TechMARK™ All Share Index since its inception may be of additional use to Shareholders. The FTSE™ TechMARK™ All Share Index was first published in 1999 and the indexed comparison is, therefore, taken from this date.




Signed on behalf of the Board
Sir Andrew Hugh Smith
Director
11 June 2003

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH SMALLER COMPANIES VCT PLC

We have audited the financial statements which comprise the statement of total return, the balance sheet, the cash flow statement and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' Remuneration Report ("the auditable part").

## Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' Remuneration Report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the the Chairman's Statement, the Investment Advisers' Review, the Directors' Report, the unaudited part of the Directors' Remuneration Report and the background to the resolution for the continuation of the Company.

We review whether the statement of corporate governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

## Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. 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 and the auditable part of the Directors' Remuneration Report 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 the company's affairs and of its total return and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Leeds
11 June 2003

# STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT)

## for the year ended 31 March 2003

| | Notes | **Revenue £000** | **Capital £000** | **Total £000** | Revenue £000 | Capital £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| | | **Year ended 31 March 2003** | | | Year ended 31 March 2002 | | |
| Net losses on investments | 7 | **-** | **(281)** | **(281)** | - | ( 2,164) | (2,164) |
| Income | 2 | **452** | **-** | **452** | 667 | - | 667 |
| Investment advisory fee | 3 | **(58)** | **(175)** | **(233)** | (77) | (231) | (308) |
| Other expenses | 3 | **(269)** | **-** | **(269)** | (244) | - | (244) |
| **Net return on ordinary activities before taxation** | | **125** | **(456)** | **(331)** | 346 | (2,395) | (2,049) |
| Tax on ordinary activities | 4 | - | - | - | (23) | 23 | - |
| **Net return on ordinary activities after taxation** | | **125** | **(456)** | **(331)** | 323 | (2,372) | (2,049) |
| Dividends in respect of equity shares | 5 | **(132)** | **-** | **(132)** | (315) | - | (315) |
| **Transfer (from) to reserves** | | **(7)** | **(456)** | **(463)** | 8 | (2,372) | (2,364) |
| Return per Ordinary share<br>Basic and diluted | 6 | **0.80p** | **(2.93)p** | **(2.13)p** | 2.05p | (15.07)p | (13.02)p |

The revenue column of this statement is the profit and loss account of the Company.

All activity has arisen from continuing operations.

There is no difference between the net revenue return on ordinary activities before taxation and the transfer to revenue reserves for the financial year and their historic cost equivalents.

The accompanying notes are an integral part of these financial statements.

# BALANCE SHEET

## at 31 March 2003

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **Fixed Assets** | | | |
| Investment portfolio | 8 | **8,349** | 8,612 |
| **Current Assets** | | | |
| Investments | 8 | **1,485** | 1,921 |
| Debtors | 10 | **156** | 68 |
| Cash | | **317** | 275 |
| | | **1,958** | 2,264 |
| Creditors: amounts payable within one year | 11 | **(170)** | (195) |
| **Net Current Assets** | | **1,788** | 2,069 |
| **Total Net Assets** | | **10,137** | 10,681 |
| **Capital and Reserves** | | | |
| Called-up share capital | 13 | **1,552** | 1,571 |
| Capital redemption reserve | 14 | **35** | 16 |
| Capital reserve | 14 | **(5,115)** | (4,659) |
| Special reserve | 14 | **13,647** | 13,728 |
| Revenue reserve | 14 | **18** | 25 |
| **Equity shareholders' funds** | 15 | **10,137** | 10,681 |
| **Net asset value per Ordinary share** | 16 | **65.3p** | 68.0p |

Signed on behalf of the Board

**Sir Andrew Hugh Smith**
**Director**
**11 June 2003**

The accompanying notes are an integral part of these financial statements.

# CASH FLOW STATEMENT

## for the year ended 31 March 2003

| | Notes | **Year ended 31 March 2003 £000** | Year ended 31 March 2002 £000 |
|---|---|---|---|
| **Net cash (outflow) inflow from operating activities** | 17 | **(114)** | 206 |
| **Taxation** | | | |
| Tax repayments received | | **-** | 186 |
| **Investing activities** | | | |
| Purchase of investments | | **(1,028)** | (2,327) |
| Proceeds from disposal of investments | | **1,001** | 1,188 |
| **Net cash outflow from investing activities** | | **(27)** | (1,139) |
| **Equity dividends to Shareholders** | | **(181)** | (346) |
| **Net cash outflow before management of liquid resources and financing** | | **(322)** | (1,093) |
| **Management of liquid resources** | | | |
| Purchase of fixed interest government stocks | | **(880)** | (437) |
| Proceeds from the sale of fixed interest government stocks | | **1,325** | 1,182 |
| **Net cash inflow from management of liquid resources** | 19 | **445** | 745 |
| **Financing** | | | |
| Purchase of own shares | | **(81)** | (42) |
| **Net cash outflow from financing** | | **(81)** | (42) |
| **Increase (decrease) in cash** | 18, 19 | **42** | (390) |

The accompanying notes are an integral part of these financial statements.

## for the year ended 31 March 2003

## 1. Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

### Going Concern

As referred to in the Chairman's Statement on pages 2 and 3, the Directors' Report on page 22 and the background to the resolution for the continuation of the Company on pages 17 and 18 a resolution regarding the continuation of the Company will be put to Shareholders at the Annual General Meeting on 11 July 2003. The Directors are recommending that Shareholders vote in favour of the resolution that the Company should continue in its current form. However, it is possible that Shareholders will vote against this resolution and that the Directors will be required to draw up proposals for consideration by Shareholders for the voluntary liquidation or other reorganisation of the Company.

In light of their recommendation to Shareholders, the Directors believe that it is appropriate for the accounts to be prepared on a going concern basis. Accordingly, the accounts do not include any potential adjustment which might arise from any potential liquidation or reorganisation of the Company. Such adjustments could result in a material change in the reported net asset value per share attributable to Ordinary Shareholders.

### Basis of Accounting

The financial statements are prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain investments as stated below, and in accordance with applicable United Kingdom accounting standards, and in accordance with the provisions of the Statement of Recommended Practice, *Financial Statements of Investment Trust Companies*, issued by The Association of Investment Trust Companies in December 1995.

### Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. All other income is recognised on an accruals basis.

### Expenses

Expenses are accounted for on an accruals basis and, except for a proportion of the investment advisory fee, are charged through the revenue account. The element of the investment advisory fee which does not relate to the administrative services, is allocated between capital and revenue in accordance with the estimated long-term split of returns in the form of capital gains and income respectively. The investment management fee has therefore been allocated 75% to capital reserve and 25% to revenue account.

Tax relief is allocated to the capital reserve using an effective rate basis.

### Capital Reserves

Capital Reserve – Realised

The following are accounted for in this reserve:
- gains and losses on the realisation of investments,
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies.

Capital Reserve – Unrealised

The following are accounted for in this reserve:
- increases and decreases in the valuation of investments held at the year-end.

### Investments

Investments in unquoted companies are treated as fixed assets and stated in the balance sheet at Directors' valuation in accordance with the British Venture Capital Association guidelines for the valuation of venture capital investments. In determining this value, the Directors give consideration to the period of investment, the performance of the investment against plan, the sustainability of earnings, comparative listed companies' earnings multiples suitably discounted and any recent transactions. Further details can be found on page 19.

Although the Company may hold more than 20% of the equity of certain companies, the Directors consider that, the investments are held as part of an investment portfolio. Accordingly, and as permitted by FRS 9 'Associates and Joint Ventures' their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of our holdings represents investments in associated undertakings.

## 1. Principal Accounting Policies (continued)

Quoted investments are valued at middle market prices. Quoted venture capital investments in AIM quoted companies are treated as fixed assets. Quoted investments held as government securities are treated as current assets due to their use as temporary holdings until venture capital investment opportunities arise and are held at current cost which equates to market value as at the balance sheet date. Gross income derived from these securities is credited to the revenue account whereas any changes in market value are debited or credited directly to capital reserve.

### Taxation

Corporation tax payable is provided on taxable profit at the current rate.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are between the Company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis. Any tax relief obtained in respect of management fees allocated to capital is reflected in the realised capital reserve and a corresponding amount is charged against revenue. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

## 2. Gross Income

| | **2003 £000** | 2002 £000 |
|---|---|---|
| Income from investments: | | |
| - Dividends from unquoted companies | **202** | 204 |
| - Dividends from AIM quoted companies | **33** | 28 |
| - Interest on loans to unquoted companies | **135** | 287 |
| - Fixed interest government securities | **69** | 133 |
| Interest on deposits | **13** | 15 |
| | **452** | 667 |

## 3. Administrative Expenses

| | | **2003 £000** | | 2002 £000 |
|---|---|---|---|---|
| Investment advisory fee (including irrecoverable VAT): | | | | |
| - allocated to Revenue reserve | **58** | | 77 | |
| - allocated to Capital reserve | **175** | | 231 | |
| | | **233** | | 308 |
| Other expenses: | | | | |
| - administration fee | **40** | | 40 | |
| - directors' remuneration | **75** | | 75 | |
| - auditors' remuneration: | | | | |
| - audit fees | **12** | | 11 | |
| - other | **11** | | 9 | |
| General expenses | **131** | | 109 | |
| | | **269** | | 244 |
| | | **502** | | 552 |

Yorkshire Fund Managers Limited provides investment advisory services to the Company under an agreement dated 28 February 1996. The agreement may be terminated by not less than 12 months' notice given by either party at any time. No notice has been issued to or by Yorkshire Fund Managers Limited terminating the contract as at the date of this report.

## 3. Administrative Expenses (continued)

The key features of the agreement are:

- Yorkshire Fund Managers Limited receives an investment advisory fee, payable quarterly in advance, at the rate of 2% of gross assets less current liabilities, calculated at half-yearly intervals as at 31 March and 30 September, of which 25% is charged to revenue account and 75% to capital reserves.
- Under this same agreement Yorkshire Fund Managers Limited also provides administrative and secretarial services to the Company for a fee based on £35,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged 100% to revenue account.

The total remuneration payable to Yorkshire Fund Managers Limited in the year (including VAT) was £280,000 (2002: £354,000).

## 4. Taxation Charge (Credit)

| | **Year ended 31 March 2003** | | | Year ended 31 March 2002 | | |
|---|---|---|---|---|---|---|
| | **Revenue £000** | **Capital £000** | **Total £000** | Revenue £000 | Capital £000 | Total £000 |
| Corporation tax at 19% (2002: 20%) | **-** | **-** | **-** | 23 | (23) | - |
| Return on ordinary activities before taxation | **125** | **(456)** | **(331)** | 346 | (2,395) | (2,049) |
| Return on ordinary activities multiplied by standard small company rate of corporation tax in the UK of 19% (2002: 20%) | **24** | **(87)** | **(63)** | 69 | (479) | (410) |
| **Effect of:** | | | | | | |
| Non taxable losses on investments (i) | **-** | **53** | **53** | - | 433 | 433 |
| UK dividends (i) | **(45)** | **-** | **(45)** | (46) | - | (46) |
| Movement in excess management expenses (ii) | **21** | **34** | **55** | - | 23 | 23 |
| Current tax charge/(credit) for year | **-** | **-** | **-** | 23 | (23) | - |

(i) Venture capital trusts are not subject to corporation tax on these items
(ii) The company has no deferred tax liability.

Deferred tax assets of £96,000 (2002: £41,000) in respect of trading losses have not been recognised as management do not currently believe that it is more likely than not sufficient taxable profits will be available against which the assets can be recovered.

## 5. Dividends

| | | **2003 £000** | 2002 £000 |
|---|---|---|---|
| Interim paid | - 0.25p per share (2002: 1.10p) | **39** | 173 |
| Final proposal | - 0.60p per share (2002: 0.90p) | **93** | 142 |
| | | **132** | 315 |

## 6. Return per Ordinary Share

The basic revenue return per Ordinary share is based on net revenue return from ordinary activities after tax of £125,000 (2002: £323,000) and 15,556,000 (2002: 15,740,000) shares being the weighted average number of shares in issue during the year. The basic capital return per Ordinary share is based on a net loss from ordinary activities of £456,000 (2002: £2,395,000) and 15,556,000 (2002: 15,740,000) shares being the weighted average number of shares in issue during the year.

The Company has no securities that would have a dilutive effect in the year to 31 March 2003 and hence basic and diluted return per share are the same.

## 7. Investment Portfolio

| | Unquoted Investments £000 | AIM Quoted Investments £000 | Total Fixed Asset Investments £000 | Fixed Income Securities £000 | Total Investments £000 |
|---|---|---|---|---|---|
| Opening cost | 9,667 | 2,381 | 12,048 | 1,941 | 13,989 |
| Opening unrealised (loss) gain | (3,945) | 509 | (3,436) | (20) | (3,456) |
| Opening valuation | 5,722 | 2,890 | 8,612 | 1,921 | 10,533 |
| Additions at cost | 729 | 299 | 1,028 | 880 | 1,908 |
| Disposal proceeds | (402) | (599) | (1,001) | (1,325) | (2,326) |
| Realised (losses) gains on disposal | (1,218) | 127 | (1,091) | (29) | (1,120) |
| Unrealised gains (losses) in the year | 2,063 | (1,262) | 801 | 38 | 839 |
| | **6,894** | **1,455** | **8,349** | **1,485** | **9,834** |
| Closing cost | 8,775 | 2,209 | 10,984 | 1,467 | 12,451 |
| Closing unrealised (loss) gain | (1,881) | (754) | (2,635) | 18 | (2,617) |
| **Closing valuation** | **6,894** | **1,455** | **8,349** | **1,485** | **9,834** |

UK Government stocks are classified as current assets due to their use as temporary holdings until venture capital investment opportunities arise.

## 8. Investments

The cost and carrying value of investments held at 31 March 2003, all of which are registered in England and Wales except where noted, are detailed as follows:

| | **2003** | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Cost £000** | **Valuation £000** | **%** | Cost £000 | Valuation £000 | % |
| **Venture capital investments** | | | | | | |
| **Freshroast Coffee Co. Limited** | | | | | | |
| Ordinary shares of £1 each | **5** | **26** | | 5 | 57 | |
| Debenture loan (4% over bank base rate) | **65** | **65** | | 75 | 75 | |
| | **70** | **91** | **0.9** | 80 | 132 | 1.2 |
| **RMF Engineering Limited** | | | | | | |
| Ordinary shares of £1 each | **90** | **90** | **0.9** | 90 | 140 | 1.3 |
| **Morgan Machine Knife Limited (In Administrative Receivership)** | | | | | | |
| Ordinary shares of £1 each | **90** | **-** | | 90 | - | |
| 10% Cumulative Redeemable Preference shares of £1 each | **228** | **-** | | 228 | - | |
| | **318** | **-** | **-** | 318 | - | - |
| **Ray Engineering Company Limited** | | | | | | |
| Ordinary shares of £1 each | **82** | **-** | | 82 | - | |
| 10.5% Cumulative Redeemable Preference shares of £1 each | **453** | **267** | | 453 | 401 | |
| | **535** | **267** | **2.6** | 535 | 401 | 3.8 |
| **International Resources Group Limited** | | | | | | |
| Ordinary shares of 1p each | **47** | **600** | **5.9** | 47 | 600 | 5.6 |

## 8. Investments (continued)

| | 2003 Cost £000 | 2003 Valuation £000 | 2003 % | 2002 Cost £000 | 2002 Valuation £000 | 2002 % |
|---|---|---|---|---|---|---|
| **CCCoutdoors Limited** | | | | | | |
| 'A' Ordinary shares of £1 each | **155** | **645** | | 155 | 155 | |
| 11.5% Cumulative Redeemable Preference shares of £1 each | **150** | **150** | | 200 | 200 | |
| 11.5% Debenture loan | **200** | **200** | | 200 | 200 | |
| | **505** | **995** | **9.8** | 555 | 555 | 5.2 |
| **TIB plc** | | | | | | |
| **(In Administrative Receivership)** | | | | | | |
| Ordinary shares of £1 each | **120** | **-** | | 120 | - | |
| 9% Cumulative Redeemable Preference shares of £1 each | **350** | **-** | | 350 | - | |
| 12% Debenture loan | **137** | **137** | | 137 | 137 | |
| | **607** | **137** | **1.4** | 607 | 137 | 1.3 |
| **Denison Mayes Group Limited** | | | | | | |
| 15% Debenture loan | **100** | **-** | **-** | 100 | - | - |
| **Eagle Marketing Limited** | | | | | | |
| **(In Administrative Receivership)** | | | | | | |
| Ordinary shares of £1 each | **200** | **-** | | 200 | - | |
| 10% Cummulative Redeemeable Preference Shares of £1 each | **800** | **-** | | 800 | - | |
| | **1,000** | **-** | **-** | 1,000 | - | - |
| **Images at Work Limited** | | | | | | |
| Ordinary shares of £1 each | **205** | **205** | | 205 | 51 | |
| 10.5% Cummulative Redeemeable Preference Shares of £1 each | **328** | **328** | | 410 | 410 | |
| | **533** | **533** | **5.3** | 615 | 461 | 4.3 |
| **First Stop Stationery Limited** | | | | | | |
| **(In Liquidation)** | | | | | | |
| Ordinary shares of £1 each | **-** | **-** | | 250 | - | |
| 5% Cummulative Redeemeable Preference Sharesof £1 each | **-** | **-** | | 1,000 | - | |
| | **-** | **-** | **-** | 1,250 | - | - |
| **T&D Packaging Limited** | | | | | | |
| Ordinary shares of £1 each | **250** | **375** | | 250 | 250 | |
| Debenture loan (3% over bank base rate subject to a minimum of 8%) | **500** | **500** | | 500 | 500 | |
| | **750** | **875** | **8.7** | 750 | 750 | 7.0 |
| **Sheet Piling (UK) Limited** | | | | | | |
| 'B' Ordinary shares of £1 each | **110** | **686** | | 110 | 110 | |
| 9% Cumulative Redeemable Preference shares of £1 each | **195** | **195** | | 195 | 195 | |
| 12% Debenture loan | **195** | **195** | | 195 | 195 | |
| | **500** | **1,076** | **10.6** | 500 | 500 | 4.7 |
| **Baynflax Limited** | | | | | | |
| **(In Administrative Receivership)** | | | | | | |
| 'B' Ordinary shares of £1 each | **100** | **-** | | 100 | - | |
| 12% Debenture loan | **400** | **-** | | 400 | - | |
| | **500** | **-** | **-** | 500 | - | - |

## 8. Investments (continued)

| | 2003 Cost £000 | 2003 Valuation £000 | 2003 % | 2002 Cost £000 | 2002 Valuation £000 | 2002 % |
|---|---|---|---|---|---|---|
| **The JDA Group Limited** | | | | | | |
| Ordinary shares | **30** | **120** | | 30 | 30 | |
| 10% Cumulative Redeemable Preference shares of £1 each | **42** | **42** | | 170 | 170 | |
| 12% Debenture loan | **-** | **-** | | 100 | 100 | |
| | **72** | **162** | **1.6** | 300 | 300 | 2.8 |
| **Voxar Limited** | | | | | | |
| *(Registered in Scotland)* | | | | | | |
| 'B' Ordinary shares of 20p each | **250** | **250** | | 250 | 250 | |
| Convertible Unsecured Loan Stock | **13** | **13** | | 13 | 13 | |
| | **263** | **263** | **2.6** | 263 | 263 | 2.5 |
| **Imerge Limited** | | | | | | |
| ‘A’ Ordinary shares of 1p each | **250** | **-** | | 250 | 250 | |
| Convertible Unsecured Loan Stock | **160** | **160** | | 57 | 57 | |
| | **410** | **160** | **1.6** | 307 | 307 | 2.9 |
| **Primal Pictures Limited** | | | | | | |
| Ordinary shares of 50p each | **400** | **400** | | 400 | 400 | |
| 10% Cumulative Redeemable Preference shares of £1 each | **100** | **100** | | 100 | 100 | |
| | **500** | **500** | **4.9** | 500 | 500 | 4.7 |
| **Weston Antennas Limited** | | | | | | |
| 'A' Ordinary shares of £1 each | **300** | **-** | | 300 | - | |
| 9% Cumulative Redeemable Preference shares of £1 each | **200** | **-** | | 200 | - | |
| | **500** | **-** | **-** | 500 | - | - |
| **Cozart Bioscience Limited** | | | | | | |
| ‘B’ Ordinary shares of 0.1p each | **500** | **500** | **4.9** | 500 | 500 | 4.7 |
| **Tamesis Limited** | | | | | | |
| Ordinary shares of 0.04p each | **350** | **175** | **1.7** | 350 | 175 | 1.6 |
| **Cambridge Cognition Limited** | | | | | | |
| Ordinary shares of £1 each | **325** | **244** | **2.4** | - | - | - |
| **Special Mail Services Limited** | | | | | | |
| ‘A’ Ordinary shares of 10p each | **30** | **-** | | - | - | |
| Preferred Ordinary shares of 10p each | **30** | **-** | | - | - | |
| Unsecured loan stock | **240** | **225** | | - | - | |
| | **300** | **225** | **2.2** | - | - | - |
| Total excluding AIM quoted investments | **8,775** | **6,893** | **68.0** | 9,667 | 5,721 | 53.6 |

## 8. Investments (continued)

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **Cost £000** | **Valuation £000** | **%** | Cost £000 | Valuation £000 | % |
| **Ordinary shares held in AIM quoted companies** | | | | | | |
| CRC plc | **-** | **-** | **-** | 149 | 256 | 2.4 |
| Bond International Software plc | **53** | **11** | **0.1** | 53 | 56 | 0.5 |
| SBS Group plc | **100** | **4** | **-** | 100 | 4 | - |
| Honeycombe Leisure plc | **-** | **-** | **-** | 253 | 313 | 2.9 |
| Connaught plc | **162** | **301** | **3.0** | 162 | 357 | 3.3 |
| Landround plc | **283** | **200** | **2.0** | 283 | 223 | 2.1 |
| Oasis Healthcare plc | **392** | **222** | **2.2** | 392 | 657 | 6.2 |
| Warthog plc | **365** | **99** | **1.0** | 365 | 288 | 2.7 |
| First Artist Corporation plc | **300** | **41** | **0.4** | 300 | 408 | 3.8 |
| Tikit Group plc | **225** | **161** | **1.5** | 225 | 224 | 2.1 |
| Spring Grove Property Maintenance plc | **80** | **98** | **1.0** | 100 | 105 | 1.0 |
| Cardpoint plc | **249** | **319** | **3.1** | - | - | - |
| Total AIM quoted investments | **2,209** | **1,456** | **14.3** | 2,382 | 2,891 | 27.0 |
| Total venture capital investments portfolio | **10,984** | **8,349** | **82.3** | 12,049 | 8,612 | 80.6 |
| **Government stocks** | | | | | | |
| 7% Treasury stock 2002 | **-** | **-** | **-** | 1,130 | 1,106 | 10.4 |
| 3.5% Funding stock 1999/04 | **1,011** | **1,025** | **10.1** | 355 | 354 | 3.3 |
| 6.5% Treasury stock 2003 | **456** | **460** | **4.5** | 456 | 461 | 4.3 |
| Total investment in Government stocks | **1,467** | **1,485** | **14.6** | 1,941 | 1,921 | 18.0 |
| Total financial asset investments | **12,451** | **9,834** | **96.9** | 13,990 | 10,533 | 98.6 |
| Cash | | **317** | **3.1** | | 275 | 2.6 |
| Other net current liabilities | | **(14)** | **-** | | (127) | (1.2) |
| **Shareholders' funds** | | **10,137** | **100.0** | | 10,681 | 100.0 |

## 8. Investments (continued)

### Significant Interests

At 31 March 2003 the Company held a significant holding of at least 20% of the issued Ordinary share capital, either individually or alongside commonly managed funds, in the following companies, all of which are registered in England and Wales:

| Company and principal activity | Description of shares held | | Percentage of class held by the Company | Percentage of class held by commonly managed funds |
|---|---|---|---|---|
| Freshroast Coffee Co Limited (processes, packages and markets coffee, tea and related vending ingredients) | 5,271 | Ordinary | 13% | 13% |
| RMF Engineering Limited (design and fabrication from specialist metals) | 40,000 | Ordinary | 25% | - |
| | 70,000 | 'B' Preference | 100% | - |
| Ray Engineering Company Limited (design and manufacture of knobs and handles) | 82,000 | Ordinary | 37% | - |
| | 453,000 | Preference | 100% | - |
| CCCoutdoors Limited (retailer of outdoor clothing and accessories) | 25,000 | Ordinary | 22% | - |
| | 200,000 | Preference | 100% | - |
| Images at Work Limited (supplies and manages corporate clothing contracts) | 75,000 | Ordinary | 33% | - |
| | 410,000 | Preference | 100% | - |
| Sheet Piling (UK) Limited (specialist civil engineering service) | 32,659 | Ordinary | 36% | - |
| | 195,000 | Preference | 100% | - |
| Baynflax Limited (manufacture specialist food processing machinery) | 3,375 | Ordinary | 25% | - |
| Primal Pictures Limited (production of anatomical CD ROMs) | 430,320 | Ordinary | 4% | 17% |
| | 300,000 | Preference | 13% | 26% |
| Cambridge Cognition Limited (a cognitive test development company) | 357,515 | Ordinary | 14% | 10% |

Commonly managed funds refer to those funds also under the management of Yorkshire Fund Managers Limited, the Investment Adviser to the Company, both on a discretionary and a non-discretionary basis.

## 8. Investments (continued)

Yorkshire Fund Managers Limited acts as Investment Adviser to certain other funds under management namely British Smaller Technology Companies VCT plc, British Smaller Technology Companies VCT 2 plc, Baring English Growth Fund (North) Limited Partnership and the Yorkshire Fund Limited Partnership, which have also invested in some of the companies within the current portfolio of this Company.

Details of these investments are summarised below. The amounts shown below are the investments made at cost as at 31 March 2003.

| | British Smaller Technology Companies VCT plc £000 | British Smaller Technology Companies VCT 2 plc £000 | Baring English Growth Fund (North) LP £000 | The Yorkshire Fund LP £000 | Total £000 |
|---|---|---|---|---|---|
| Freshroast Coffee Co. Limited | - | - | - | 70 | 70 |
| Voxar Limited | 745 | - | - | - | 745 |
| Imerge Limited | 735 | - | - | - | 735 |
| Primal Pictures Limited | 1,000 | - | - | - | 1,000 |
| Weston Antennas Limited | 500 | - | - | - | 500 |
| Cozart Bioscience Limited | 500 | - | - | - | 500 |
| Tamesis Limited | 350 | 150 | 325 | - | 825 |
| Cambridge Cognition Limited | - | 240 | - | - | 240 |
| Special Mail Services Limited | - | - | 1,433 | - | 1,433 |

## 9. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used. All financial assets are held in Sterling, hence there is no foreign currency exchange rate exposure. The fixed asset investments are valued in accordance with the British Venture Capital Association guidelines and, therefore, the Directors consider all assets to be carried at a valuation that equates to fair value.

Investments are made in a combination of equity and fixed rate financial instruments so as to comply with venture capital trust legislation and provide potential high future capital growth.

Surplus funds are held in fixed rate Government stocks until suitable qualifying investment opportunities arise.

At 31 March 2003 and 31 March 2002, the financial assets, by value, excluding short term-trade debtors and creditors as permitted by FRS 13, comprised:

| | **2003** | | 2002 | |
|---|---|---|---|---|
| | **£000** | **%** | £000 | % |
| **Qualifying venture capital investments** | | | | |
| Ordinary shares | **5,772** | **56.9** | 5,859 | 54.2 |
| Fixed Interest Preference shares | **1,082** | **10.7** | 1,476 | 13.7 |
| Debenture loan stock | **1,495** | **14.7** | 1,277 | 11.8 |
| | **8,349** | **82.3** | 8,612 | 79.7 |
| Fixed Interest Government stocks | **1,485** | **14.6** | 1,921 | 17.8 |
| Cash | **317** | **3.1** | 275 | 2.5 |
| | **10,151** | **100.0** | 10,808 | 100.0 |

## 9. Financial Instruments (continued)

At 31 March 2003 and 31 March 2002, the financial assets, by value, excluding (as permitted by FRS 13) short-term trade debtors, and the analysis by interest rate risk, comprised:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | £000 | % | £000 | % |
| **Qualifying venture capital investments** | | | | |
| Fixed interest investment assets | **1,787** | **17.6** | 2,178 | 20.2 |
| Floating rate investment assets | **790** | **7.8** | 575 | 5.3 |
| Ordinary shares | **5,772** | **56.9** | 5,859 | 54.2 |
| | **8,349** | **82.3** | 8,612 | 79.7 |
| Fixed interest Government stocks | **1,485** | **14.6** | 1,921 | 17.8 |
| Cash on floating rate deposit | **317** | **3.1** | 275 | 2.5 |
| | **10,151** | **100.0** | 10,808 | 100.0 |

The weighted average interest rate on fixed rate financial assets in venture capital investments held at 31 March 2003 was 9.0% (2002: 9.7%). The weighted average period for which these rates applied was 2 years, 7 months (2002: 3 years, 1 month). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 7.0% (2002: 8.1%) with a weighted average period of 2 years, 4 months (2002: 2 years, 6 months).

Ordinary share investments are excluded from the weighted average interest rate risk analysis in both years as there is no pre-defined maturity date on these investments.

The Company invests in financial assets to comply with the venture capital trust legislation and provide capital growth for shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim.

Due to the structure of certain investments, preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company has the option of repaying earlier. In some instances the redemption carries a premium repayment.

Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

The Company has a borrowing facility with The Royal Bank of Scotland plc of £3.75m under an agreement dated 11 February 1998. This facility is available for the Company to utilise in making venture capital investments once Shareholders' funds have been fully invested. There are no borrowings under this facility in either year.

The loan facility is denominated in Sterling. Interest payable on the loan, when drawn, is linked to LIBOR rates. For the period that the loan remains undrawn a commitment fee of 0.5% per annum is payable by the Company; thereafter, the charge is 0.25% per annum. Any borrowings made under this facility are repayable no later than 11 February 2008.

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements.

The investments in equity and fixed interest stocks of unquoted and AIM quoted companies the Company holds are thinly traded, and as such, the prices are more volatile than those of more widely traded securities. The ability of the Company to realise the investments at their carrying value may at times not be possible if there are no willing purchasers. In addition, the ability of the Company to purchase or sell investments is also constrained by the requirements set down for venture capital trusts.

## 10. Debtors

| | 2003 | 2002 |
|---|---|---|
| | £000 | £000 |
| **Amounts receivable within one year:** | | |
| Prepayments and accrued income | **156** | 68 |

## 11. Creditors

| | 2003 £000 | 2002 £000 |
|---|---|---|
| **Amounts payable within one year:** | | |
| Accrued expenses | **77** | 53 |
| Proposed dividend | **93** | 142 |
| | **170** | 195 |

The average number of creditor payment days during the year was 43 (2002: 28).

## 12. Deferred Tax

There are no amounts provided or unprovided in respect of deferred tax (2002: £nil).

## 13. Called-up Share Capital

| | **2003** Authorised £000 | **2003** Allotted, Called-up and Fully paid £000 | 2002 Authorised £000 | 2002 Allotted, Called-up and Fully paid £000 |
|---|---|---|---|---|
| Ordinary shares of 10p | | | | |
| Authorised: 18,000,000 (2002: 18,000,000) | | | | |
| Issued: 15,517,838 (2002: 15,707,838) | **1,800** | **1,552** | 1,800 | 1,571 |

The movement in the year was as follows:

| | Date | Share Capital Number | Share Capital £000 |
|---|---|---|---|
| As at 1 April 2002 | | 15,707,838 | 1,571 |
| Purchases | April 02 | (100,000) | (10) |
| | July 02 | (65,000) | (7) |
| | January 03 | (25,000) | (2) |
| As at 31 March 2003 | | **15,517,838** | **1,552** |

## 14. Reserves

The movement in the year was as follows:

| | Capital Redemption Reserve £000 | Capital Reserve Realised £000 | Capital Reserve Unrealised £000 | Special Reserve £000 | Revenue Reserve £000 |
|---|---|---|---|---|---|
| Beginning of the year | 16 | (1,203) | (3,456) | 13,728 | 25 |
| Unrealised gain on fixed asset investments | - | - | 801 | - | - |
| Realisation of fixed asset investments | - | (1,091) | - | - | - |
| Unrealised gain on current asset investments | - | - | 38 | - | - |
| Realisation of current asset investments | - | (29) | - | - | - |
| Capital expenses | - | (175) | - | - | - |
| Purchase of own shares | 19 | - | - | (81) | - |
| Deficit on revenue return for the year | - | - | - | - | (7) |
| As at 31 March 2003 | 35 | (2,498) | (2,617) | 13,647 | 18 |

## 15. Reconciliation of Movements in Shareholders' Funds

| | **2003** | 2002 |
|---|---|---|
| | **£000** | £000 |
| Beginning of the year | **10,681** | 13,086 |
| Total return after tax | **(331)** | (2,049) |
| Purchase of own shares | **(81)** | (41) |
| Dividends paid and payable | **(132)** | (315) |
| As at 31 March | **10,137** | 10,681 |

## 16. Net Asset Value per Ordinary Share

The net asset value per Ordinary share is calculated on attributable assets of £10,137,000 (2002: £10,681,000) and 15,517,838 (2002: 15,707,838) shares in issue at the year-end.

## 17. Reconciliation of Net Revenue Return on Ordinary Activities before Taxation to Net Cash (Outflow) Inflow from Operating Activities

| | **2003** | 2002 |
|---|---|---|
| | **£000** | £000 |
| Net revenue return on ordinary activities before taxation | **125** | 346 |
| (Increase) decrease in prepayments and accrued income | **(88)** | 99 |
| Increase (decrease) in accruals | **24** | (8) |
| Investment advisory fees charged to capital reserve | **(175)** | (231) |
| Net cash (outflow) inflow from operating activities | **(114)** | 206 |

## 18. Reconciliation of Net Cash Flow to Movement in Net Funds

| | **2003** | 2002 |
|---|---|---|
| | **£000** | £000 |
| Increase (decrease) in cash in the year | **42** | (390) |
| Cash inflow from decrease in liquid resources | **(445)** | (745) |
| Changes in net funds resulting from cash flows | **(403)** | (1,135) |
| Other non-cash items: | | |
| Movement in value of current asset quoted investments | **9** | (32) |
| Net funds at beginning of year | **2,196** | 3,363 |
| Net funds at 31 March | **1,802** | 2,196 |

## 19. Analysis of Net Funds

| | 31 March 2002 £000 | Cash flow £000 | Other non-cash changes £000 | **31 March 2003 £000** |
|---|---|---|---|---|
| Cash | 275 | 42 | - | **317** |
| Current asset investments | 1,921 | (445) | 9 | **1,485** |
| | 2,196 | (403) | 9 | **1,802** |

## 20. Financial Commitments

Investments totalling £308,000 (2002: £385,000) approved by the Board of Directors at 31 March 2003, have not been reflected in these accounts. Since the year-end no further investments have been approved by the Board (2002: £775,000).

## 21. Related Party Transactions

Mr Leach and Mr Cammerman are Chairman and Managing Director respectively of Yorkshire Fund Managers Limited, the Investment Adviser to the Company, and a wholly owned subsidiary of Yorkshire Enterprise Limited which held 3.4% of the issued share capital of British Smaller Companies VCT plc at 31 March 2003 (2002: 3.4%). Mr Leach and Mr Cammerman are also Chairman and Investment Director respectively of Yorkshire Enterprise Limited. Neither Mr Leach nor Mr Cammerman have any beneficial shareholding in either Yorkshire Fund Managers Limited or Yorkshire Enterprise Limited.

During the year Yorkshire Fund Managers Limited received remuneration amounting to £240,000 (2002: £301,000) in respect of services provided in accordance with the Investment Advisory Agreement dated 28 February 1996. At 31 March 2003 there were no amounts owing to or from Yorkshire Fund Managers Limited (2002: £Nil).

Until 22 November 2002 Mr Pettigrew was a director of The Generics Group Limited, the technology adviser to Yorkshire Fund Managers Limited. He is also a non-executive director of Voxar Limited, an investee of this Company. Mr Pettigrew had no involvement in the Company's decision to invest in Voxar Limited. During the year he received remuneration of £8,000 (2002: £6,000) from Voxar Limited in respect of his services.

Mr Last is a non-executive director of Tamesis Limited. The appointment was made pursuant to an agreement following the investment made in that company. During the year he received remuneration of £6,000 (2002: £8,000) from Tamesis Limited in respect of his services.

Until 7 July 2002 Mr Seed was a non-executive director of Weston Antennas Limited. The appointment was made pursuant to an agreement following the investment made in that company. Mr Seed did not receive any remuneration direct from the company but received £3,000 from Yorkshire Fund Managers Limited, the Investment Adviser to the Company, in respect of his services to Weston Antennas Limited (2002: £10,000).

Mr Lindemann is a non-executive director of International Resources Group Limited. The appointment was made pursuant to an agreement following the investment made in that company. Mr Lindemann also holds 0.92% equity interest in this company. In addition, Equity Ventures Limited, a company in which Mr Lindemann has a beneficial interest, was paid £15,000 by International Resources Group Limited in respect of his services (2002: £14,000).

Mr Leach is a non-executive director of the The JDA Group Limited. The appointment was made pursuant to an agreement following the investment made in that company. Mr Leach did not receive any remuneration from that company in respect of his services in either year.

Under the Subscription Rights Agreement dated 28 February 1996 Yorkshire Fund Managers Limited has a performance-related incentive, structured so as to entitle it to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to Shareholders. However, such incentive will only apply in the event that the return to Shareholders (after taking account of the effect of the incentive) is at least equal to the movement in the FTSE™ Actuaries All Share Index over the period to April 2003, calculated on a total return basis.

## 22. Post Balance Sheet Events

On 8 May 2003 the Company invested a further £7,500 in Imerge Limited. The investment was by way of Convertible Unsecured Loan Stock.

On 29 May 2003 the Company disposed of 280,000 Ordinary shares in Cardpoint plc, an AIM quoted investment, realising a gain of £47,000 on the carrying value as at 31 March 2003.

## TRADING HISTORY

| | **Year ended 31 March 2003** | Year ended 31 March 2002 | Year ended 31 March 2001 | Year ended 31 March 2000 | Year ended 31 March 1999 |
|---|---|---|---|---|---|
| Income | **£452,000** | £667,000 | £730,000 | £860,000 | £1,046,000 |
| Net revenue return before tax | **£125,000** | £346,000 | £424,000 | £556,000 | £748,000 |
| Net revenue return after tax | **£125,000** | £323,000 | £376,000 | £502,000 | £550,000 |
| Revenue return per share | **0.80p** | 2.05p | 2.38p | 3.17p | 3.50p |
| Total return per share | **(2.13)p** | (13.02)p | (4.38)p | (5.79)p | 2.20p |
| Dividend per share | **0.85p** | 2.00p | 2.30p | 3.15p | 3.49p |
| Net assets | **£10,137,000** | £10,681,000 | £13,086,000 | £14,188,000 | £15,604,000 |
| Net asset value per share | **65.3p** | 68.0p | 82.9p | 89.6p | 98.5p |
| Number of qualifying investments | **32** | 32 | 28 | 19 | 18 |
| Value of qualifying investments | **£8,349,000** | £8,612,000 | £9,605,000 | £8,399,000 | £7,956,000 |

**No: 3134749**

## BRITISH SMALLER COMPANIES VCT plc

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 23 Berkeley Square, London, W1J 6HE, on 11 July 2003 at 12 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions, which as to resolutions numbered (1)-(8) inclusive shall each be proposed as Ordinary Resolutions and as to resolutions numbered (9) and (10) shall each be proposed as Special Resolutions.

## ORDINARY RESOLUTIONS

**As Ordinary Business**

(1) To receive the Annual Report and accounts for the year ended 31 March 2003.

(2) To declare a final dividend for the year to 31 March 2003 of 0.6p per Ordinary Share.

(3) To approve the Directors' Remuneration report.

(4) To re-elect as a Director Sir Andrew Hugh Smith who retires by rotation.

(5) To re-elect as a Director Mr P S Cammerman who retires by rotation.

(6) To re-elect as a Director Mr R M Pettigrew who retires by rotation.

(7) To reappoint PricewaterhouseCoopers LLP as independent auditors to the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers) to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and special notice having been received of the invitation to propose the resolution and to authorise the Directors to fix their remuneration.

**As Special Business**

(8) To continue as a venture capital trust.

## SPECIAL RESOLUTIONS

(9) THAT in substitution for any existing authority the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary Shares of 10p in the capital of the Company ("Ordinary Shares") provided that:

9.1 the maximum aggregate number of Ordinary Shares authorised to be purchased is 1,551,783;

9.2 the minimum price which may be paid for an Ordinary Share is 10p;

9.3 the maximum price which may be paid for an Ordinary Share is an amount equal to maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in forces as at the date of purchase;

9.4 this authority shall take effect from 11 July 2003 and shall expire on 10 January 2005; and

9.5 the Company may make a contract or contracts to purchase Ordinary Shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

(10) THAT Article 142 of the Articles of Association of the Company be and is hereby amended by adding the words "otherwise than by way of redemption or purchase by the Company of its own shares in accordance with section 160 or 162 of the Act" at the end of the sixth sentence of the Article.

## BY ORDER OF THE BOARD

**J E P Gervasio**
**Secretary**
11 June 2003

Registered Office:
Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

Notes:

(1) A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(2) To be valid, a form of proxy must be lodged with the Company's registrars, Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 OLA not later than 48 hours before the time of appointment for holding the Meeting.

(3) In accordance with Regulation 41 of The Uncertificated Securities Regulation 2001, only those members entered on The Company's register of members not later than 12 noon on 9 July 2003 or, if the meeting is adjourned, Shareholders entered on The Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

(4) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting if he wishes to do so.

(5) Biographical details concerning the three directors retiring and offering themselves for re-election can be found on page 20 of the Annual Report .

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BRITISH
SMALLER
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VCT plc

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