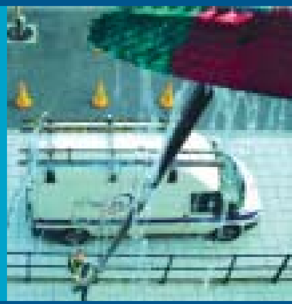
Annual Report
for the year ended
31 March 2004



BRITISH
SMALLER
COMPANIES
VCT plc

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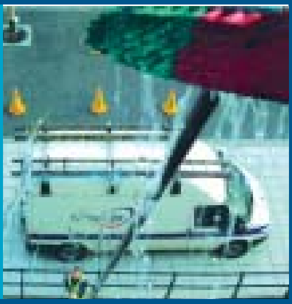


British Smaller Companies VCT plc

Advised by Yorkshire Fund Managers Limited, British Smaller Companies VCT plc provides venture capital funding of up to £1m to VCT qualifying companies. A total of £16.25m was raised over the period to June 1998 and is invested across a range of industry sectors in businesses at varying stages of their development. A maximum of 20% of total funds raised is reserved for investments in AIM quoted companies.

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

Financial Highlights as at 31 March 2004

	Pence per Ordinary share		
	2004	2003	2002
Dividend	**4.80**	0.85	2.00
Cumulative dividend	**24.15**	19.35	18.50
Net asset value	**73.54**	65.32	68.00
Total return (net asset value plus cumulative dividend)	**97.69**	84.67	86.50

Financial Calendar

Results Announced	10 June 2004
Ex-dividend Date	16 June 2004
Record Date	18 June 2004
Annual General Meeting	22 July 2004

Chairman's Statement

The progress in the investment portfolio reported in my interim statement has continued through the second half of the year. Over the year as a whole, net asset value, before the proposed dividend distribution, rose 19.9%.

We have now reached a new phase in the development of the Company and can begin to distribute capital profits by way of dividends. In recognition of this progress and of continuing promising developments in a number of portfolio companies, your Board has taken the necessary steps to enable capital gains to be paid to Shareholders as dividends.

It is the Board's intention to distribute realised profits over a three-year period so as to avoid an unnecessarily volatile fluctuation in the level of dividends. The amount originally invested will be retained for reinvestment. In accordance with this policy the Board proposes a dividend of 4.8p of which 4.3p is attributable to profits on investments.

Investment Portfolio

We continue to look at investment opportunities on a selective basis and, over the past year, invested just over £858,000 in two new, and three follow-on, opportunities. I am pleased to confirm that the new investments made during the year, Harlands of Hull Limited and AIM quoted Straight plc, are both progressing to plan.

We have continued to devote significant management effort on working with portfolio companies to build their businesses and capitalise on market competitiveness. Although there have, inevitably, been some setbacks, this activity has played a part in a number of strong performances from investee companies and your Board has felt justified in increasing the valuations of these businesses to reflect this.

The investment valuations have been prepared in accordance with the revised guidelines issued by the British Venture Capital Association (BVCA) last June. This revision to the valuation methodology represents a change in the basis of measurement and not a change in accounting policy. Therefore, the prior year comparative figures have not been restated because of this.

There were no full realisations in the second half of the year. However, partial realisations continued with the scheduled redemption of loans and preference shares, some of which were at a premium and resulted in a small, realised, capital gain. There was also a further small amount received from the disposal of T&D Packaging Limited that took place in the first half of the year.

Looking ahead, rising activity in the corporate finance market indicates increasing opportunities for the realisation of portfolio companies, whether through trade sales or flotation. I am pleased to announce that one such company is in the advanced stages of negotiation with a potential trade buyer. There can be no assurance that this realisation will occur but, since the transaction is at an advanced stage, your Board has reflected most of the impact on the reported net asset value at 31 March 2004.

Against this optimism, the recent increase in oil prices, rising interest rates and the ongoing uncertainty in the Middle East makes the current economic climate fragile and it is not clear how long the current favourable market conditions will continue.

A more detailed review of the progress of the portfolio and the individual businesses within it is included within the Investment Adviser's Review that follows this statement.

Financial Results and Dividend

On 29 March 2004, the directors agreed to revoke investment company status and this decision was given effect prior to the financial year end. The purpose of this action was to enable the Company to start distributing realised capital gains to Shareholders in the form of tax free dividends.

As explained in last year's Annual Report, a consequence of this action to revoke investment company status is that the accounts can no longer be prepared in accordance with the provisions of the Statement of Recommended Practice, *Financial Statements of Investment Trust Companies.* In particular, the Statement of Total Return previously presented to Shareholders in the Annual Report is now replaced by a profit and loss account and Statement of Total

> *"Significant management effort in the last year has been focused on working with portfolio companies to build on their businesses and capitalise on market competitiveness."*

Recognised Gains and Losses in accordance with the Companies Act 1985. As required by the Companies Act 1985 and Accounting Standards, the prior year comparatives have been restated on the same basis. In order to present a like for like comparative statement for Shareholders in this transitional year, a Statement of Total Return in the prior year format has been included on page 18.

The Statement of Total Recognised Gains and Losses, which takes into account the unrealised gains on investment valuations, shows a total recognised gain in the year of £1,991,000, equivalent to 12.9p per share. The profit and loss account shows a loss for the year of £755,000. This is after charging £766,000 of net unrealised losses.

A dividend of 4.8p per share is proposed. There is currently an amount equivalent to just under 11p per share available to distribute from realised capital gains. If the proposed dividend of 4.8p is approved, a total of 24.2p per share will have been distributed to Shareholders since inception. Added to the current net asset value of 73.5p per share, this equates to a total return to date of 97.7p per share.

Shareholder Relations and Fundraising

The series of workshops organised by Yorkshire Fund Managers Limited, the Investment Adviser to the Company, and held throughout 2003, were well received and are planned to continue. The first event in 2004 was held on 21 April at The British Museum and, again, was well attended. Further events are planned in the remainder of the year.

Following feedback from previous workshops and a questionnaire circulated to investors by Yorkshire Fund Managers, your Board is actively considering the introduction of a dividend reinvestment scheme. We continue to look at other initiatives aimed at improving communication, liquidity and Shareholder value.

In our continuing efforts to improve share liquidity, the Shareholders last year approved a resolution to grant the Board increased flexibility in pricing purchases in the market by the Company of its own shares. Your Board intends that the price to be paid will be at a 10% discount to the most recently published net asset value per share, subject to the maximum permitted by the Listing Rules. Net asset values will continue to be announced on a quarterly basis. Purchases made will still be at the discretion of the directors, who will only do so in circumstances that are of benefit to Shareholders as a whole.

"The optimism contained in my recent reports has now started to flow through to the financial results."

Following approval at the last AGM for the Company to continue as a VCT, and in light of the Chancellor's announcement in the Budget to improve the tax benefits to Shareholders investing in VCTs, your Board is actively exploring fundraising opportunities. The ability for Shareholders to benefit from 40% income tax relief, regardless of their own marginal rate of tax, and the raising of the ceiling for maximum investment in any one year to £200,000, whilst still retaining the tax free status of dividend distributions, makes VCTs even more attractive as part of an individual's balanced investment portfolio.

There are a number of options open to your Board that will enable Shareholders to take advantage of these tax incentives and I will report further once we have decided on the best option in the circumstances.

Outlook

The optimism contained in my recent reports has now started to flow through to the financial results. There is plenty of potential for further value growth within the portfolio and, with the revocation of investment company status, your Board is now in a position to distribute a level of tax free dividends to Shareholders in the short to medium term. Longer term dividend policy will depend upon the pattern and timing of realisations of the maturing companies in the portfolio.

The economic environment has remained healthy over the past couple of years and allowed a number of companies within the portfolio to show their potential, with an increasing number offering exit opportunities. With the economy now entering a new period of uncertainty, both economic and political, the ability for your Company's investment portfolio to maintain its rate of growth will be largely dependent upon how the corporate finance market responds in these circumstances.

Andrew Hugh Smith

Sir Andrew Hugh Smith
Chairman
15 June 2004

Investment Adviser's Review

Investment Portfolio

This section describes the business of the active 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

Cost:	£325,000
Valuation:	£81,000
Date of investment:	May 2002
Equity held:	11.91%
Valuation basis:	Discounted cash flows of the underlying business
Location:	Cambridge

For the period ended 31 December 2002 audited pre-tax losses were £0.81m on turnover of £0.61m. At 31 December 2002 the aggregate net assets were £0.74m.

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

During the year, the company has continued to supply product to its traditional markets. Further product development on different platforms has given access to new markets.

www.camcog.com

CCCoutdoors Limited

Cost:	£155,000
Valuation:	£1,343,000
Dates of investment:	May 1998 and March 2002
Equity held:	22.26%
Valuation basis:	Earnings multiple
Location:	Sheffield

For the 52 weeks ended 1 February 2004 audited pre-tax profits were £1.02m on turnover of £9.02m (53 weeks ended 2 February 2003: £0.60m and £4.40m respectively). At 1 February 2004 net assets were £2.52m.

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. The company has recently opened a new 50,000 sq. ft. site in Coventry.

www.cccoutdoors.com

Cozart Bioscience Limited

Cost:	£500,000
Valuation:	£1,109,000
Date of investment:	May 2001
Equity held:	6.34%
Valuation basis:	Industry benchmark – turnover multiple
Location:	Abingdon

For the year ended 31 May 2003 audited pre-tax losses were £0.99m on turnover of £2.55m (18 month period ended 31 May 2002: £1.26m loss and £1.82m respectively). At 31 May 2003 net assets were £0.70m.

Cozart is a developer of hand-held drug testing devices. Following the adoption of the company's technology by a number of UK police forces, progress is now being made within the prison and probationary services for the testing of drug abuse. As part of its expansion plans, greater resource is being applied to sales and marketing functions to open up certain US and European markets.

In 2003 the company secured another UK Home Office tender to train and supply a further 66 BCUs (Basic Command Units) for drugs of abuse. The saliva-based kits are being trialed in a number of other European counties as well as in America and Australia.
www.cozart.co.uk

Denison Mayes Group Limited

Cost:	£100,000
Valuation:	£Nil
Date of investment:	August 1998
Equity held:	-
Valuation basis:	Full impairment
Location:	Leeds

Denison Mayes Group has taken advantage of the small company exemption available under the Companies Act 1985, and has not filed full audited financial statements at Companies House. At 31 December 2002 net assets were £0.06m.

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.
www.denisonmayesgroup.com

Freshroast Coffee Co. Limited

Cost:	£45,000
Valuation:	£51,000
Date of investment:	July 1998
Equity held:	13.00%
Valuation basis:	Independent third party valuation
Location:	Elland

For the year ended 31 December 2002 audited pre-tax profits were £0.06m on turnover of £2.94m (2001: pre-tax profits of £0.09m and £3.01m respectively). At 31 December 2002 net assets were £0.24m.

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.

Investment Adviser's Review

Harlands of Hull Limited

Cost:	£500,000
Valuation:	£500,000
Date of investment:	September 2003
Equity held:	23.00%
Valuation basis:	Price of recent investment
Location:	Hull

For the year ended 30 June 2003 audited pre-tax profits were £0.67m on turnover of £5.65m (2002: pre-tax losses of £0.07m on turnover of £5.10m). At 30 June 2003 net liabilities were £0.39m.

Harlands is a leading UK specialist manufacturer of self-adhesive labels.

The investment of £500,000 in September 2003 supported the management buy-out of the business which was non-core to the then parent company.

Harlands is a well known brand in the sector and is one of the market leaders in the manufacture of high quality self-adhesive labels for the personal care and cosmetics, beverages and pharmaceutical markets.
www.harlands.co.uk

Images at Work Limited

Cost:	£451,000
Valuation:	£673,000
Date of investment:	March 1999
Equity held:	33.33%
Valuation basis:	Earnings multiple
Location:	Salisbury

For the year ended 30 September 2003 audited pre-tax profits were £0.22m on turnover of £5.34m (2002: £0.38m and £5.21m respectively). At 30 September 2003 net assets were £0.75m.

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 market's growing perception of Images' brand as one synonymous with providing cost efficiencies and quality of service.
www.iaw.co.uk

Imerge Limited

Cost:	£418,000
Valuation:	£Nil
Dates of investment:	December 2000, August 2001, April 2002, August 2002, January 2003, February 2003 and May 2003
Equity held:	0.23%
Valuation basis:	Full impairment
Location:	Cambridge

For the year ended 31 December 2002 audited pre-tax losses were £3.56m on turnover of £2.00m (2001: £4.35m and £1.45m respectively). At 31 December 2002 net liabilities were £4.58m.

Imerge supply high quality audio visual products which give consumers easy, exciting control of pre-recorded, broadcast and personalised online entertainment, anywhere in the home.

Whilst developing its product further, sales are still running behind budget, in comparision to its sector which has continued to see a period of steady growth.
www.imerge.co.uk and www.xiva.com

International Resources Group Limited

Cost:	£47,000
Valuation:	£677,000
Date of investment:	February 1998 and March 2000
Equity held:	6.55%
Valuation basis:	Earnings multiple
Location:	London

For the year ended 31 December 2002 audited pre-tax losses were £0.27m on turnover of £19.67m (2001: £0.03m and £21.39m respectively). At 31 December 2002 net assets were £0.72m.

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 believes it is continually gaining market share in a market which is proving difficult for some of its major competitors.
www.odgers.com

The JDA Group Limited

Cost:	£30,000
Valuation:	£621,000
Date of investment:	September 2000
Equity held:	15.00%
Valuation basis:	Earnings multiple
Location:	Leeds

For the year ended 31 December 2002 audited pre-tax profits were £0.26m on turnover of £12.65m (15 month period to 31 December 2001: £0.82m and £15.43m respectively). At 31 December 2002, net assets were £1.06m.

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 and Lakeland.

The company made a small acquisition in December 2003 and has added PR and additional creative skills as well as a new office in Warrington. The integrated business has generated immediate improvements and the company exceeded expectations for the 2003 year-end.
www.jda.co.uk

Primal Pictures Limited

Cost:	£500,000
Valuation:	£320,000
Date of investment:	March 2001
Equity held:	3.85%
Valuation basis:	Impairment to last valuation
Location:	London

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.

Primal Pictures has developed a series of 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.

During the course of 2003 Primal completed its mapping of the human anatomy. This event is expected to open up significantly more market opportunities for its products, particularly in education, which is seen as a key area of growth.
www.primalpictures.com

Investment Adviser's Review

Ray Engineering Company Limited

Cost:	£535,000
Valuation:	£Nil
Dates of investment:	November 1997 and November 1998
Equity held:	36.94%
Valuation basis:	Full impairment
Location:	Bristol

For the year ended 31 December 2002 audited pre-tax profits were £0.03m on turnover of £2.33m (2001: £0.09m and £2.53m respectively). At 31 December 2002 net assets were £0.67m.

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.

The company has extended its reach into the manufacturing sector by distributing OEM products through its service channels.

www.rencol.com

RMF Engineering Limited

Cost:	£90,000
Valuation:	£86,000
Date of investment:	February 1997
Equity held:	25.00%
Valuation basis:	Independent third party valuation
Location:	Dinnington

For the year ended 31 December 2002 audited pre-tax losses were £0.09m on turnover of £2.55m (2001: £0.32m pre-tax profits and £4.69m respectively). At 31 December 2002 net assets were £0.66m.

RMF is one of Europe's leading manufacturers of corrosion resistant chemical plants specialising in providing tailor made solutions to individual problems.

After a difficult year the company now reports a full order book as its traditional international markets return to making capital expenditure decisions.

www.rmf-engineering.co.uk

Sheet Piling (UK) Limited

Cost:	£305,000
Valuation:	£1,003,000
Date of investment:	June 2000
Equity held:	36.00%
Valuation basis:	Earnings multiple
Location:	Preston

For the year ended 27 May 2002 audited pre-tax profits were £0.45 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.

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 practice has led to continued performance ahead of targets.

www.sheetpilinguk.com

Investment Adviser's Review

Special Mail Services Limited

Cost:	£417,000
Valuation:	£249,000
Dates of investment:	September 2002, September 2003 and February 2004
Equity held:	2.57%
Valuation basis:	Earnings multiple
Location:	Northampton

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

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. This rapid expansion has required some minor changes to the funding plan, but has aided the company in winning the contract for the delivery of passports in the UK.

www.sdsco.com

Tamesis Limited

Cost:	£350,000
Valuation:	£87,000
Date of investment:	July 2001
Equity held:	4.61%
Valuation basis:	Industry benchmark - turnover multiple
Location:	London

Tamesis has taken advantage of the small company exemption available under The Companies Act 1985, and has not filed full audited financial statements at Companies House. At 31 December 2002 net assets were £0.32m.

Tamesis is a developer of 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 successful client implementation of its software during 2003 helped energise its sales pipeline and the prospects for 2004 are encouraging.

www.tamesis.com

Voxar Limited

Cost:	£263,000
Valuation:	£208,000
Dates of investment:	September 2002 and February 2003
Equity held:	1.29%
Valuation basis:	Third party valuation
Location:	Edinburgh

For the year ended 31 December 2003 audited pre-tax losses were £1.15m on turnover of £3.80m (17 months ended 31 December 2002: £2.16m and £5.13m respectively). At 31 December 2003 net assets were £0.03m.

Voxar is an industry leader in the development of software products for 3D visualisation of medical scanner data. By delivering its applications on networked personal computers, access to higher quality 3D images is available on a departmental, rather than the traditional workstation, basis. This promotes the usage of valuable 3D imaging amongst a much wider audience than before and allows Voxar to increase its sales penetration in each customer location.

Since we last reported, the company has continued to expand its distribution channels, grow the average contract value and move closer to breaking into profit.

www.voxar.com

Investment Adviser's Review

AIM Quoted Companies

Bond International Software plc

Cost:	£53,000
Valuation:	£31,000
Date of investment:	December 1997
Equity held:	0.33%
Number of shares held:	80,769
Valuation basis:	Quoted bid price
Location:	Worthing

For the year ended 31 December 2003 audited pre-tax profits were £0.32m on turnover of £7.04m (2002: pre-tax losses of £1.97m and £6.40m respectively). At 31 December 2003 net assets were £3.08m.

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 better trading throughout 2003, and enters 2004 with a good order book and strong enquiry pipeline. The company should be well placed to benefit from any recovery in the recruitment market.
www.bondadapt.com

Cardpoint plc

Cost:	£119,000
Valuation:	£335,000
Date of investment:	June 2002
Equity held:	0.76%
Number of shares held:	248,396
Valuation basis:	Quoted bid price
Location:	Lytham St Annes

For the year ended 30 September 2003, audited pre-tax losses were £0.61m on turnover of £5.82m (2002: £0.76m and £3.10m respectively). Loss per Ordinary share was 2.50p (2002: 5.30p) and no dividends were paid in either year. At 30 September 2003 net assets were £6.94m.

Cardpoint is one of the UK's leading independent providers of ATMs (cashpoints). Our investment supported the company on its debut onto 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. It has made a number of acquisitions during the year, with the purchase of the Securicor estate being of particular importance. It also diversified into mobile phone top-up points and embarked on a strategy to develop its cash machine presence in Europe.
www.cashcardservices.co.uk

Connaught plc

Cost:	£162,000
Valuation:	£494,000
Dates of investment:	November 1998, July 1991 and January 2001
Equity held:	0.63%
Number of shares held:	120,000
Valuation basis:	Quoted bid price
Location:	Sidmouth

For the year ended 31 August 2003 audited pre-tax profits were £5.06m on turnover £159.42m (2002: £3.33m and £100.94m respectively). Fully diluted earnings per share was 16.6p with a full year dividend per share of 7.7p (2002: 21.2p and 7.5p respectively). At 31 August 2003 net assets were £29.82m.

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 2003 to report 50% turnover growth and 52% profit growth. The business now operates mainly in the public sector on large long term contracts which give turnover visibility and reliable earnings.

www.connaught.plc.uk

First Artist Corporation plc

Cost:	£300,000
Valuation:	£22,000
Dates of investment:	March and December 2001
Equity held:	1.59%
Number of shares held:	857,876
Valuation basis:	Quoted bid price
Location:	Wembley

For the period ended 31 October 2003 audited pre-tax losses were £15.00m on turnover of £4.23m (year ended 30 June 2002: pre tax profits of £0.64m and £6.70m respectively). At 31 October 2003 net assets were £1.48m.

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 recent years, supporting the acquisition of FIMO, a European based football agency, when the shares were admitted on to AIM.

The business suffered badly in 2002 from the new football transfer rules and from the TV rights problems. With the fall in transfer fees, the company has diversified to offer wealth management services to its client base.

www.1startist.com

Investment Adviser's Review

Landround plc

Cost:	£283,000
Valuation:	£561,000
Date of investment:	August 1999
Equity held:	2.51%
Number of shares held:	143,927
Valuation basis:	Quoted bid price
Location:	Chester

For the year ended 30 September 2003 pre-tax profits were £1.96m on turnover of £9.89m (2002: £0.75m and £7.07m respectively). At 30 September 2003 net assets were £4.55m.

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.

Previous years' sales have been affected by world events as diverse as September 11, BSE and the hostilities in the Middle East. The company's performance in 2003 has recovered impressively from all its external misfortunes.
www.landround.com

Oasis Healthcare plc

Cost:	£392,000
Valuation:	£219,000
Dates of investment:	July 2000 and July 2001
Equity held:	1.63%
Number of shares held:	1,327,000
Valuation basis:	Quoted bid price
Location:	Norwich

For the year ended 31 March 2003 audited pre-tax losses were £2.27m on turnover of £32.84m (2002: £0.01m and £15.47m respectively). At 31 March 2003 net assets were £15.14m.

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.

Now that the buy-and-build phase is complete, certain managerial changes have been implemented to extract maximum margins from the estate.
www.oasis-healthcare.com

Spring Grove Property Maintenance plc

Cost:	£80,000
Valuation:	£66,000
Date of investment:	December 2001
Equity held:	1.61%
Number of shares held:	200,000
Valuation basis:	Quoted bid price
Location:	Hounslow

For the year ended 31 January 2003 audited pre-tax profits were £0.39m on turnover of £10.79m (2002: £0.39m and £7.39m respectively). At 31 January 2003 net assets were £3.25m.

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 long- term contracts.

In spite of this, the company has reported losses and has begun to implement corrective strategies for future years.
www.sgpm.co.uk

Investment Adviser's Review

Straight plc

Cost:	£165,000
Valuation:	£202,000
Date of investment:	February 2004
Equity held:	2.99%
Number of shares held:	206,250
Valuation basis:	Quoted bid price
Location:	Leeds

For the year ended 31 December 2003 audited pre-tax profits were £0.45m on turnover of £10.18m. (2002: £0.30m and £5.19m respectively). At 31 December 2003 net assets were £2.27m.

Based in central Leeds, Straight plc supply container solutions, predominantly manufactured from plastics, for the collection, storage or transportation of source separated waste. In addition, they supply end users with a range of environmentally friendly home and garden products, including compost bins and water butts. The company has a number of contracts with waste management companies, local authorities, community sector organisations and private sector businesses. The investment was made when Straight plc raised £1.5 million on admission to AIM in November 2003.
www.straight.co.uk

Tikit Group plc

Cost:	£225,000
Valuation:	£260,000
Date of investment:	June 2001
Equity held:	1.59%
Valuation basis:	Quoted bid price
Number of shares held:	195,652
Location:	London

For the year ended 31 December 2003 audited pre-tax profits were £0.71m on turnover of £9.56m (2002: £0.31m and £8.23m respectively). At 31 December 2003 net assets were £3.63m.

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 reserve businesses. This security of income and prompt cost saving measures, together with a recovery of the larger spend on IT, has allowed the company to report 16% increase in sales and 129.0% increase in profits.
www.tikit.com

Warthog plc

Cost:	£365,000
Valuation:	£18,000
Dates of investment:	January 2001 and January 2002
Equity held:	0.24%
Number of shares held:	790,000
Valuation basis:	Quoted bid price
Location:	Cheadle

For the year ended 31 March 2003 audited pre-tax losses were £0.79m on turnover of £11.42m (2002: £0.49m pre tax profits and £8.86m respectively). At 31 March 2003 net assets were £7.83m.

Warthog are developers of interactive entertainment software, with a focus on computer games. Admission on to AIM in 2001 has enabled the company to expand its game pipeline and portfolio whilst raising its profile to improve 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, some of the publishers, for whom it was developing new titles, experienced trading difficulties which had a knock-on effect for Warthog.
www.warthog.co.uk

Investment Adviser's Review

In last year's report we tentatively suggested that the portfolio was beginning to show signs of stability and growth. The significantly increased corporate activity we have seen this year corroborates the optimism behind this prediction. A number of portfolio companies have held discussions which could lead to a realisation of our investment.

We are pleased to report positive progress being made by a majority of companies in the portfolio. This is reflected in a 13.0p increase in net asset value per share before paying a 4.8p per share dividend.

In spite of a number of potentially destabilising factors, the return of some confidence to the stock market brings with it a renewed appetite for the flotation of a wide variety of growing businesses. This route for exiting our investments has not been available for the last two years. We now believe that a number of our companies may be able to benefit from this improvement in market sentiment.

Cash and tradeable gilts totalled just over £2.8m at 31 March 2004. The payment of the recommended dividend will reduce this by £741,000. We believe that the Company has adequate remaining funds to support those businesses which merit further support, and to make new investments on a selective basis as suitable opportunities arise.

Investment Activity

At the start of the year your Company was effectively fully invested, adequately meeting the VCT qualification ratios as required by legislation. With this background, the investment activity in the year ended 31 March 2004 has been:

	AIM		Unquoted		Total	
	No	£000	No	£000	No	£000
New	1	165	1	500	**2**	**665**
Re-investments	1	68	2	125	**3**	**193**
	2	233	3	625	**5**	**858**

Within the AIM portfolio, your Company has made one new investment, in Straight Plc, a supplier of plastic containers designed for use in the roadside collection of recyclable waste products. £165,000 was invested in November 2003 and, since that date, the business has performed in line with our expectations.

In June 2003, Cardpoint plc, in which your Company then held just over 3%, made an acquisition of the Securicor cash point machine business combined with a rights issue. As a result we were able to trade in a volatile market so as to book a £113,000 profit and still retain a stake in the company which has potential for strong indigenous and geographical expansion.

In the unquoted portfolio, follow-on investments were made in Special Mail Services Limited and Imerge Limited. A new investment joined the portfolio when we took a stake in Harlands of Hull Limited.

Special Mail Services has won some significant national secure-delivery contracts which have required a rapid expansion of infrastructure, including new depots to improve geographical reach. The implementation of the contract for the delivery of passports for the UK Passport Service has coincided with a period of considerable change for the organisation, and its management, with recent results showing early signs of delivering the profitability we originally expected.

In spite of technological accolades, and after a number of small re-financing rounds, we decided that further investment in Imerge could not be justified. The company continues to earn revenues from the licensees for its digital audio technology.

The investment in Harlands of Hull Limited completed on 25 September 2003 when we supported the management buy-out of this specialist labels printer. Since then, trading has been ahead of budget and the company is in the process of trialling and selecting a new combination press to increase its productive capacity. This investment in new machinery should enhance productivity and quality, positioning the company well for winning future contracts.

A number of other companies in the portfolio also achieved important funding rounds during the year, which your VCT either did not need to, or we, as Investment Advisers, recommended your VCT not to, participate in. An encouraging aspect of this funding is that a significant proportion was raised as debt, thus avoiding the dilution of existing Shareholders and enhancing equity value.

As a sign of their confidence in Cozart Bioscience Limited, the existing investors quickly raised £500,000 of debt to provide working capital to finance a number of Home Office contracts for hand-held drug testing devices.

The expansion of CCCoutdoors Limited, a retailer of outdoor clothing, equipment and travel goods, continued with the opening of a new 50,000 sq ft site in Coventry. This will be the largest store in the UK devoted to the outdoor lifestyle and it is encouraging to report that several banks competed to provide £4m of lending at keen rates.

During the year, Primal Pictures Limited completed the mapping of the human anatomy, thus opening up wider market opportunities. In order to capitalise on these opportunities, a Small Firm Loan Guarantee facility was introduced to fund the increased working capital requirements.

Cambridge Cognition Limited, the developer of computerised tests for the assessment of cognitive impairment addressing the huge markets of dementia and Alzheimer's, secured follow-on funding of £1.1m during the year, to allow it to diversify its sales from the academic and pharmaceutical arenas into the clinical screening market, particularly in the USA.

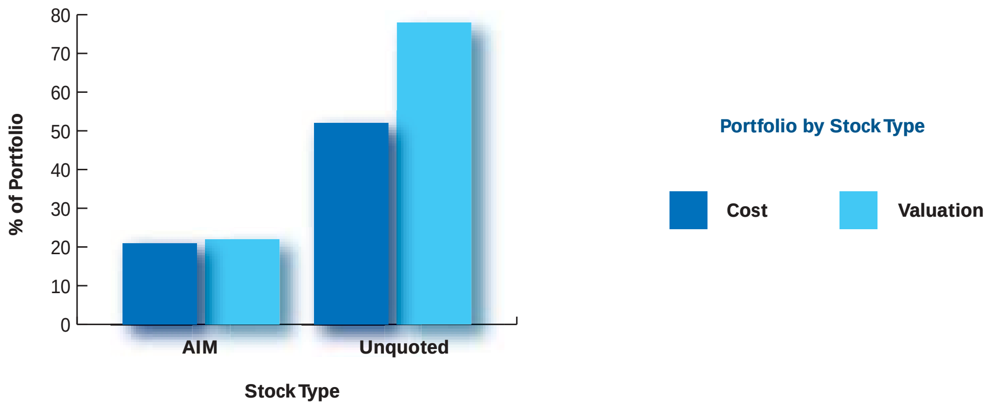
Portfolio Performance

As reported in the Chairman's Statement, the valuation of venture capital investments has been made in accordance with the revised British Venture Capital Association Guidelines, which became effective from 1 August 2003. These guidelines are explained in more detail on pages 20 and 21. Now that this methodology has been adopted, Shareholders should be prepared to see slightly more volatility in valuations in the future, reflecting short term results from individual companies, without undermining confidence in the longer term prospects for each company.

This year, we are pleased to report that a significant number of companies in the unquoted portfolio showed improving performance, which has resulted in increased valuations. Against this, a small number of investments have failed to meet expectations and an appropriate provision has been taken where their valuations have been impaired. In some cases, where a third party arms-length valuation is available, resulting from an indicative offer for our shareholding, this has been used as the basis for the valuation.

The net effect of these movements has been a £2,168,000 valuation uplift (26%) which can be analysed as:

	£000
Increase to reflect growth in the unquoted portfolio	2,299
Impairment for underperformance in the unquoted portfolio	(959)
Arm's length third party valuations	(3)
Movement in AIM stocks	831
	2,168



Unquoted Portfolio

The profitable completion of the sale of T & D Packaging Limited in June 2003 for a total consideration of £925,000 showed a modest return on our original investment of £750,000, but this was regarded as a very satisfactory result given the ferocious competition which had arisen in this sector as a result of the strengthening of Sterling exchange rates against other currencies.

The investment in TIB plc was finally realised when an amount of £157,000 plus accrued interest was received from the Administrative Receiver. This was slightly in excess of the 2003 carrying value.

In spite of attempts to revitalise the Weston Antennas Limited business, which included re-financing from third parties and the introduction of new management, the investors syndicate finally withdrew and the company was placed into Administrative Receivership in July 2003. The Company's investment in Weston had already been fully provided for in the prior year and no return is expected.

There were also a number of partial realisations in the year, arising from scheduled loan and preference share redemptions. In some cases, the preference share redemptions carried a premium resulting in a realised gain for your Company. During the year, CCCoutdoors Limited made an early redemption of its loan stock and remaining preference shares, resulting in a profit of £45,000. Other realised gains arising from preference share redemptions came from Sheet Piling (UK) Limited (£19,500) and The JDA Group Limited (£6,000).

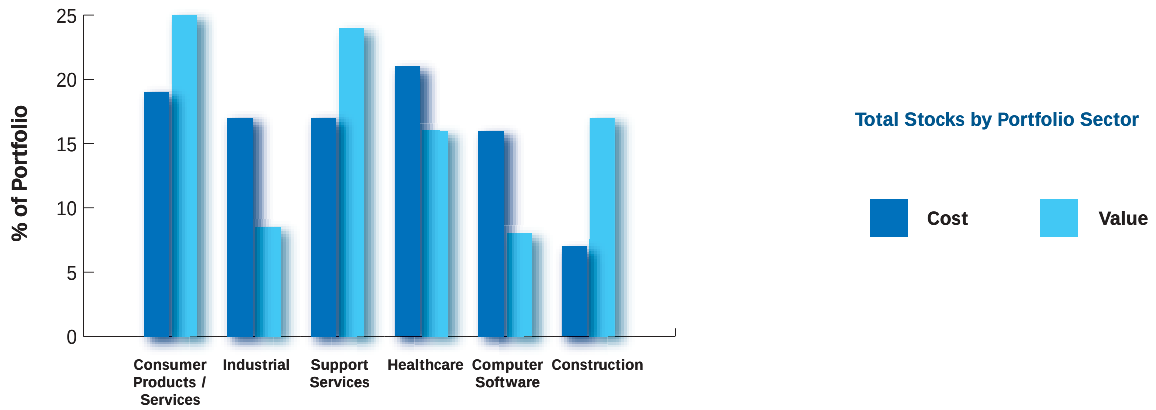
AIM Portfolio

Following last year's disappointing results, the AIM portfolio has staged a strong recovery, reporting an increase of £831,000 in the period. This represents a like-for-like increase of 54.6% over the year as a whole. The investments in AIM quoted businesses represent 23% at cost of the current venture capital portfolio and 13.9% of the initial capital of the Fund. Your Board has authorised up to 20% of the initial capital to be invested in AIM stocks.

As reported at the interim stage, SBS plc, a specialist international IT staffing business could not reach a funding agreement with its bank to carry it through the down-cycle and was placed into Administration with little prospect of a return to the Company.

Sector Analysis

As a generalist VCT, your Company invests in a variety of businesses across a broad range of industry sectors. The sector performance, as analysed across the current portfolio, is set out in the table below:



Consumer products/services continues as one of the largest sectors, both by cost and value. Creditable performances from CCCoutdoors, Cardpoint and Landround have helped drive enhanced value.

In support services, strong performances at Images at Work, International Resources Group and JDA Group more than offset the provision taken against uncertainties at Special Mail Services. In construction, Connaught and Sheet Piling have put in impressive results.

The healthcare portfolio is dependent on investments in three early stage investments, Primal Pictures, Cozart Bioscience, and the AIM quoted Oasis Healthcare. All are close to proving commercial viability and, if financial results begin to support their business models, it will be possible to write in higher valuations in the future.

The computer software and industrial sectors look disappointing, but this is predominantly due to one company in each sector pulling down valuations disproportionately. With widespread commentary on the recovery of IT and software spending, we expect this sector’s situation to correct itself over time.

Summary and Outlook

The last two reports have emphasised the benefits derived from your Investment Adviser working closely with portfolio companies to assist them in improving and building their businesses. This policy will continue and should lead to increased investment valuations. Many companies in the unquoted portfolio have risen to the challenge that this represents, allowing us to report a significant uplift in net asset value.

Despite the difficulties experienced in the last two or three years by a number of our portfolio businesses, your Company holds an interest in several investments with good prospects for either future capital growth or strong yield. Through delivery of this potential, these investments will enable your Company to fulfil its objective of delivering the progressive tax-free dividend policy set out in the Chairman's Report over the next few years whilst maintaining capital value. Of particular importance, the improved tax breaks which apply to new VCT fund raising over the next two years should create new exit opportunities at enhanced valuations for unquoted companies held in this portfolio.

David Hall
Managing Director
Yorkshire Fund Managers Limited
15 June 2004

Unaudited Statement of Total Return

For the year ended 31 March 2004

	Notes	Year ended 31 March 2004 Revenue £000	Year ended 31 March 2004 Capital £000	Year ended 31 March 2004 Total £000	Year ended 31 March 2003 Revenue £000	Year ended 31 March 2003 Capital £000	Year ended 31 March 2003 Total £000
Net gains (losses) on investments	7	**–**	**2,091**	**2,091**	–	(281)	(281)
Income	2	**364**	**–**	**364**	452	–	452
Investment advisory fee	3	**(62)**	**(188)**	**(250)**	(58)	(175)	(233)
Other expenses	3	**(214)**	**–**	**(214)**	(269)	–	(269)
Net return on ordinary activities before taxation		**88**	**1,903**	**1,991**	125	(456)	(331)
Tax on ordinary activities		**–**	**–**	**–**	–	–	–
Net return on ordinary activities after taxation		**88**	**1,903**	**1,991**	125	(456)	(331)
Dividends in respect of equity shares	5	**(741)**	**–**	**(741)**	(132)	–	(132)
Transfer (from) to reserves		**(653)**	**1,903**	**1,250**	(7)	(456)	(463)
Return per Ordinary share							
Basic and diluted		**0.57p**	**12.30p**	**12.87p**	0.80p	(2.93)p	(2.13)p

The Statement of Total Return and the following notes are unaudited and do not form part of the financial statements.

In order to enable the Company to make capital distributions, the Company has revoked its investment company status and is accordingly unable to take advantage of the accounting exemptions that status permits. The results of the Company set out on page 36 have been prepared in accordance with the requirements of Schedule 4 of The Companies Act 1985, which requires that all realised gains and losses, including those arising from the disposal of investments, are included in the results for the year. When the Company revalues its investments, any unrealised gains or losses above historical cost are credited/charged to the Revaluation reserve, whilst any unrealised gains or losses below historical costs are taken straight to the profit and loss account.

The results presented in the Statement of Total Return have been included to assist investors in comparing the results of the Company with other investment companies or Venture Capital Trusts. Although the basis of presentation of the Statement of Total Return and the profit and loss account on page 36 are different, the total gains recognised in the year together with the net assets attributable to each phase remain the same irrespective of the basis of preparation.

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 account using an effective rate basis.

Any tax relief obtained in respect of management fees allocated to capital is reflected in the capital account 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.

Notes to the Unaudited Statement of Total Return

The notes below are unaudited and do not form part of the financial statements.

Set out below is a comparison of how the returns are recorded in the Statement of Total Return and the statutory accounts for the year ended 31 March 2004.

		2004		2003	
	Notes	**Statement of Total Return £000**	**Statutory Profit and Loss Account £000**	Statement of Total Return £000	Statutory Profit and Loss Account £000
Net return on ordinary activities after taxation		**1,991**	**-**	(331)	-
Loss on ordinary activities after taxation		**-**	**(755)**	-	(1,027)
Net unrealised gains for the year	7	**-**	**2,746**	-	696
Total		**1,991**	**1,991**	(331)	(331)
Revenue return after dividends		**(653)**	**-**	(7)	-
Sustained loss for the year		**-**	**(1,496)**	-	(1,159)
Investment advisory fee allocated to capital	2	**-**	**188**	-	175
Impairment of investments in the year	7	**-**	**766**	-	964
Net realised (gains) losses on disposal	7	**-**	**(111)**	-	13
Total		**(653)**	**(653)**	(7)	(7)
Capital return after dividends		**1,903**	**-**	(456)	-
Investment Advisory fee allocated to capital	2	**-**	**(188)**	-	(175)
Net realised gains (losses) on disposal	7	**-**	**111**	-	(13)
Net unrealised gains for the year	7	**-**	**2,746**	-	696
Impairment of investments in the year		**-**	**(766)**	-	(964)
Total		**1,903**	**1,903**	(456)	(456)

Reference to revenue and capital in the notes to the financial statements reflects the basis on which taxation is calculated and the treatment applied in determining the amounts available for revenue dividend distribution.

The basic revenue return per Ordinary share is based on net revenue return from ordinary activities after tax of £88,000 (2003: £125,000) and 15,457,000 (2003: 15,556,000) 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 capital return from ordinary activities of £1,903,000 (2003: £456,000 net loss) and 15,457,000 (2003: 15,556,000) shares being the weighted average number of shares in issue during the year.

Valuation of Venture Capital Investments

In valuing venture capital investments, the directors follow the criteria set out below. These procedures comply with the revised British Venture Capital Association Valuation Guidelines that became effective from 1 August 2003.

The Valuation Guidelines set out a range of methodologies that should be followed to enable investments to be stated in the balance sheet at their fair value on the reporting date, except in situations where fair value cannot be reliably measured. Fair value is defined as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

In estimating fair values for an investment, the methodology applied should be appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio and should use reasonable assumptions and estimates. Methodologies should be applied consistently from period to period, except where a change would result in a better estimate of fair value.

Unquoted Investments

Methodologies are classified as to primary and secondary. Wherever possible, one of the primary methodologies will be used to determine fair value.

Primary methodologies

- Price of recent investment. This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party, but is only considered relevant for a limited period following the date of the relevant transaction. A period of one year is used in practice. During this period, the value of the investment is assessed for changes or events that would imply impairment to the fair value.

- Earnings multiple. A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. Appropriate adjustments are made to reflect points of difference between the investee company and any comparators that have been used to determine the appropriate multiple. A marketability discount in the range of 10% and 30% is then applied to reflect illiquidity.

- Net assets. The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company to which a marketability discount is then applied.

Secondary methodologies

- Discounted cash flows of the underlying business. The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounting by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.

- Discounted cash flows from the investment. Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

- Industry valuation benchmarks.

Valuation of Venture Capital Investments

Where an independent third party valuation exists, this will be used as the basis to derive the net attributable enterprise value of the company. In other cases, the most suitable methodology, as set out above, is used to determine this value. This value is then apportioned appropriately to reflect the respective amounts accruing to each financial instrument holder in the event of a sale at that level at the reporting date.

In situations where fair value cannot be reliably measured, the investment is reported at the carrying value at the previous reporting date, unless there is evidence that the investment has since been impaired. In such cases the carrying value is reduced to reflect the estimated extent of impairment. In estimating the extent of impairment, the directors will consider, amongst other things, performance and prospects of the underlying business compared to the expectations on which the investment was based, the changes in the environment in which the business operates and deteriorations in general market conditions.

Quoted Investments

Quoted investments are valued at market price but reduced by a marketability discount where:

i. there is a risk that the holding may not be sold immediately; or
ii. there is a formal restriction on trading in the relevant securities

Where a bid price is available, this is used to determine fair value. Otherwise, mid-market price is used.

The marketability discount will be determined by reference to the size of the holding in relation to normal trading volumes in that security and the extent of an particular trading restrictions. Discounts will typically range from 0% to 25%.

Application of Valuation Methodologies

Wherever possible, the fixed asset investments within the portfolio have been valued using a primary methodology to determine fair value. Where this primary methodology is not appropriate, a suitable secondary methodology has been applied, for example, where the date since the last investment is greater than 12 months, where the company is loss making and, therefore, an earnings multiple cannot be applied, and where the net assets of the company do not represent its underlying fair value.

Directors

Sir Andrew Colin Hugh Smith, Chairman (72)

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 (50)

He 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 Thermal Energy Ventures Limited. He is a director of Seabeam Airways Limited and Seabeam Partners Limited.

Philip Simon Cammerman (62)

He has over 30 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 19 years in the venture capital industry and is executive chairman of Yorkshire Fund Managers Limited and a director of Yorkshire Enterprise Group (Holdings) 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 (46)

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 (69)

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 Group (Holdings) 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 Opera North Limited.

Robert Lindemann (53)

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. He is a non-executive director of International Resources Group Limited, an investee of the Company.

Robert Martin Pettigrew (59)

A founding director of The Generics Group of companies, he 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.

Directors

John Junior Seed (65)

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

Directors' Report

For the Year Ended 31 March 2004

The directors present their report and audited accounts of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2004.

Principal Activity and Business Review

The profit and loss account for the year is set out on page 36.

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 17. 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.

On 29 March 2004, the Board determined it was appropriate to revoke the Company's investment company status by giving notice in the prescribed form to the Registrar of Companies.

A consequence of revocation of investment company status is that the Company is now required to prepare accounts in accordance with the requirements of Schedule 4 of The Companies Act 1985 and not in accordance with the Statement of Recommended Practice *'Financial Statements of Investment Trust Companies'* as was previously the case. The main effect of this change is that the Company presents a profit and loss account instead of a statement of total return. For Shareholder information, a statement of total return for the year ended 31 March 2004, and comparison to the statutory accounts profit and loss format, is included on pages 18 and 19.

Results and Dividends

The loss on ordinary activities after taxation for the year amounted to £755,000 (2003: £1,027,000).

The directors recommend the payment of a final dividend of 4.8p per share which will be paid on 9 August 2004 to Shareholders on the register on 18 June 2004. A resolution to this effect will be proposed at the Annual General Meeting to be held on 22 July 2004.

The net asset value per Ordinary share at 31 March 2004 was 73.5p (2003: 65.3p). The transfer to reserves is given in note 14.

Share Capital and Purchase of Own Shares

Following Shareholder approval at the Annual General Meeting held on 11 July 2003 the Company's authority to purchase its own Ordinary shares in the market was extended until 10 January 2005. The following purchases were made in the year:

On 23 June 2003 the Company purchased for cancellation under existing authority granted by the Shareholders 75,000 Ordinary shares of 10p each in the market, representing 0.5% of the issued called-up share capital at that date, at a price of 41.875p per share for cash.

On 24 July 2003 the Company purchased for cancellation under existing authority granted by the Shareholders 2,000 Ordinary shares of 10p each in the market, representing 0.01% of the issued called-up share capital at that date, at a price of 41.5p per share for cash.

On 27 November 2003 the Company purchased for cancellation under existing authority granted by the Shareholders 5,000 Ordinary shares of 10p each in the market, representing 0.03% of the issued called-up share capital at that date, at a price of 45p per share for cash.

Substantial Shareholding

Yorkshire Enterprise Group Limited, the parent 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 notes 7 and 8.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 55 and 56 of these financial statements.

Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as independent auditors to the Company 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 of 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.

Directors' Report

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 integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred 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 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* issued in June 1998 (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 issued in June 1998, 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, Sir Andrew Hugh Smith, C J Brown, R Last, R Pettigrew and J J Seed are independent of the Company's Investment Adviser. A full list of the directors of the Company is on pages 22 and 23.

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. An Ordinary resolution is to be proposed at the Annual General Meeting to re-elect R Lindemann, J J Seed and C J Brown who retire by rotation. Biographical details of the three directors seeking re-election this year may be found on pages 22 and 23. Due to the nature of the Company 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 on pages 31 to 33.

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.

Under an agreement dated 28 February 1996, the executive functions of the Company are sub-contracted to Yorkshire Fund Managers Limited. 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.

Directors' Report

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 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.

Internal Control

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 2004 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.
- 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.

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.

The Board is considering how changes in the revised combined code, *The Combined Code on Corporate Governance,* issued in July 2003, which will take effect in next year's Annual Report, and the AITC Code on Corporate Governance will apply to this Company. It is also currently considering the impact of the implementation of International Financial Reporting Standards on the Company and will report to Shareholders in due course.

Going Concern

The directors have carefully considered the going concern issue and are satisfied that the Company has sufficient cash resources to meet its obligations for the foreseeable future. Therefore, the directors believe that it is appropriate to continue to apply the going concern basis in preparing financial statements.

Relations with Shareholders

This year's AGM will be held on 22 July 2004. The Notice of Meeting is circulated not less than 20 working days before the AGM in compliance with the recommendation contained in the Combined Code issued in June 1998. 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.

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 £2,656,000 as at 31 March 2004. 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 BVCA guidelines issued in June 2003, a summary of which is set out on pages 20 and 21 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 2004 equates 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 repayment premium.

Directors' Report

The Board has set aside an amount of up to 20% of initial funds raised to be available for investment 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 2004 can be found in the Investment Adviser's Review and notes 7 to 9 to these Financial Statements.

By order of the Board
J E P Gervasio LL.B.
Company Secretary
15 June 2004

Directors' Remuneration Report

The Board does not have a separate Remuneration Committee as, due to the nature of the Company 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 as at 31 March 2004 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 2004	Number of Ordinary shares at 31 March 2003
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	**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 pages 22 and 23. 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 has no employees in either year.

Administration

Yorkshire Fund Managers Limited 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 and regulated by the Financial Services Authority. Mr Cammerman and Mr Leach are directors of Yorkshire Fund Managers Limited and each has a beneficial shareholding interest in its ultimate parent company Yorkshire Enterprise Group (Holdings) Limited.

Directors' Remuneration Report

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 relevant period, calculated on a total return basis. No entitlement has accrued to Yorkshire Fund Managers Limited in either year under this incentive agreement. By a Deed of Assignment dated 19 December 2003, the benefit of the subscription right was assigned to Yorkshire Fund Managers Limited Trust, an employee benefit trust formed for the benefit of certain employees of Yorkshire Fund Managers Limited and associated Companies. Mr Leach is a trustee of the Trust and Mr Cammerman is one of the beneficiaries of that Trust.

Basic Remuneration

Total directors' remuneration for the year amounted to £75,000 (2003: £75,000) of which £55,000 (2003: £55,000) was paid to five individuals for services as directors and £20,000 (2003: £20,000) was paid to third parties in respect of directors' services.

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

	2004	2003
	£	£
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
P M Pettigrew	**10,000**	10,000
J J Seed	**10,000**	10,000

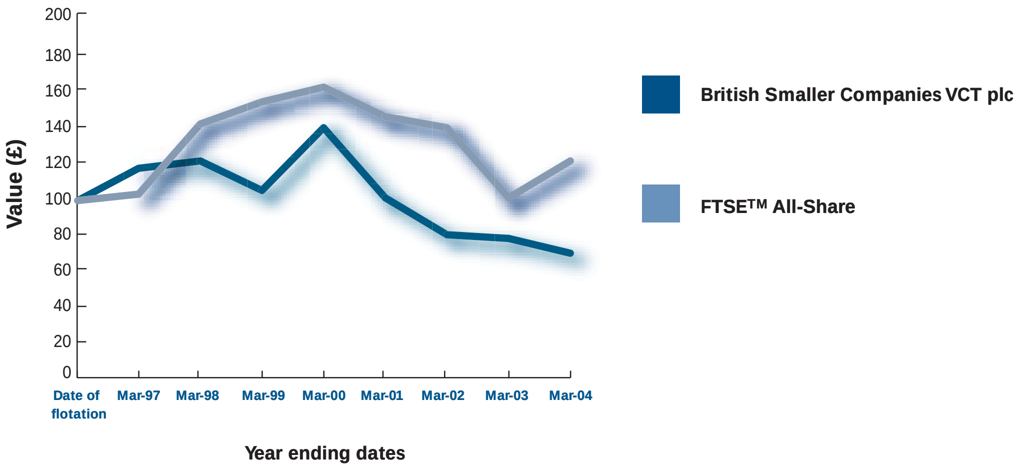
There are no directors who are remunerated as executive directors. Mr Cammerman, who is executive chairman of the Company's Investment Adviser, receives no fees for his services as director of the Company. None of Mr Cammerman's remuneration from Yorkshire Fund Managers Limited is considered to relate to his role with 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.

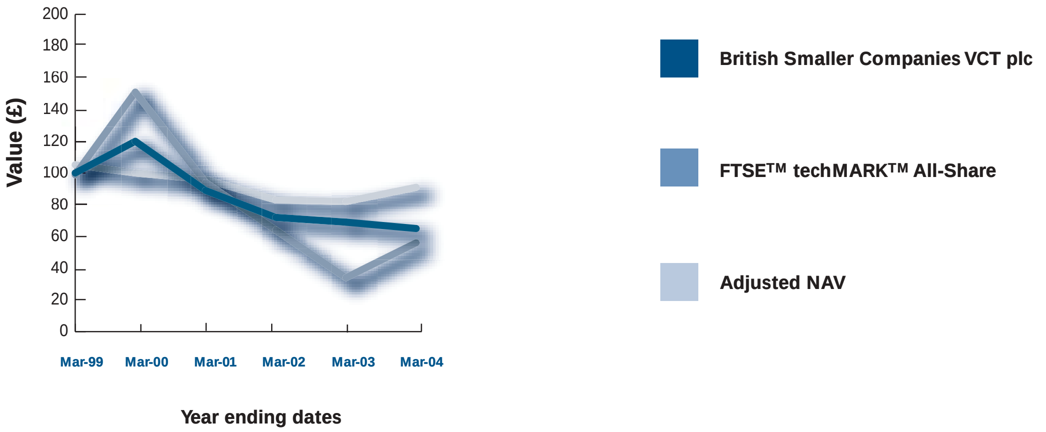
The 'Basic Remuneration' section is the only part of the Director's Remuneration Report required to be audited.

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 2004. 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 2004, 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 focus of your Company's investments are across a broad range of industry sectors.



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 in 1999 may be of additional use to Shareholders. The return from the Company is based on a Shareholder receiving basic tax relief on his or her investment but ignores any capital gains rollover relief. The graph looks at the value, by the end of March 2004, of £100 invested in the Company's shares with the value of £100 invested in the FTSE™ techMARK™ All-Share 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.



Signed on behalf of the Board

Sir Andrew Hugh Smith
Chairman
15 June 2004

Independent Auditors’ Report

To the Members of British Smaller Companies VCT plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses, 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 chairman’s statement, the investment advisers’ review, the statement of total return and associated notes, the directors' report and the unaudited part of the directors’ remuneration report.

We review whether the statement of corporate governance reflects the Company's compliance with the seven provisions of the Combined Code issued in June 1998 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 loss 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
15 June 2004

Profit and Loss Account

For the year ended 31 March 2004

	Notes	2004 £000	2003 Restated £000
Income	2	**364**	452
Administrative expenses:			
Investment management fee	3	**(250)**	(233)
Other expenses	3	**(214)**	(269)
		(464)	(502)
Gain (loss) on realisation of investments	7	**111**	(13)
Impairment of investments		**(766)**	(964)
Loss on ordinary activities before taxation		**(755)**	(1,027)
Tax on loss on ordinary activities	4	**-**	-
Loss for the financial year		**(755)**	(1,027)
Dividends	5	**(741)**	(132)
Deficit for the year	14	**(1,496)**	(1,159)
Basic and diluted loss per Ordinary share	6	**(4.88)p**	(6.60)p

All activity has arisen from continuing operations.

The accompanying notes are an integral part of this statement.

Statement of Total Recognised Gains and Losses

	2004 £000	2003 Restated £000
Loss for the financial year	**(755)**	(1,027)
Unrealised gain on valuation of investments	**2,746**	696
Total recognised gains (losses) for the year	**1,991**	(331)

Note of Historical Cost Profits and Losses

	2004 £000	2003 Restated £000
Loss for the financial year	**(755)**	(1,027)
Realisation of investment losses of previous years	**(194)**	(1,107)
Historical cost loss on ordinary activities before taxation	**(949)**	(2,134)
Historical cost loss for the year after taxation and dividends	**(1,690)**	(2,266)

Balance Sheet

At 31 March 2004

	Notes	2004 £000	2003 Restated £000
Fixed Assets			
Investments	8	**9,216**	8,349
Current Assets			
Debtors	10	**101**	156
Investments	8	**2,656**	1,485
Cash		**184**	317
		2,941	1,958
Creditors: amounts payable within one year	11	**(805)**	(170)
Net Current Assets		**2,136**	1,788
Total Net Assets		**11,352**	10,137
Capital and Reserves			
Called-up share capital	13	**1,544**	1,552
Capital redemption reserve	14	**43**	35
Revaluation reserve	14	**5,039**	2,099
Special reserve	14	**3,871**	13,647
Profit and Loss account	14	**855**	(7,196)
Equity Shareholders' funds	15	**11,352**	10,137
Net asset value per Ordinary share	16	**73.5p**	65.3p

Signed on behalf of the Board

Sir Andrew Hugh Smith
Director
15 June 2004

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

Cash Flow Statement

For the year ended 31 March 2004

	Notes	2004 £000	2003 £000
Net cash outflow from operating activities	17	**(58)**	(114)
Investing activities			
Purchase of fixed asset investmments		**(858)**	(1,028)
Proceeds from disposal of fixed asset investments		**2,159**	1,001
Net cash inflow (outflow) from investing activities		**1,301**	(27)
Equity dividends to Shareholders		**(93)**	(181)
Net cash inflow (outflow) before management of liquid resources and financing		**1,150**	(322)
Management of liquid resources			
Purchase of fixed interest Government stocks		**(2,733)**	(880)
Proceeds from the sale of fixed interest Government stocks		**1,485**	1,325
Net cash (outflow) inflow from management of liquid resources	19	**(1,248)**	445
Financing			
Purchase of own shares		**(35)**	(81)
(Decrease) increase in cash in the year	18,19	**(133)**	42

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

1. Principal Accounting Policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the current and preceeding year, is set out below, with the exception of the adoption of the revised British Venture Capital Association guidelines.

Basis and Preparation 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 and in accordance with the Companies Act 1985 and with applicable accounting standards in the United Kingdom.

In order to enable the Company to make capital distributions, the Company has revoked its investment company status and is unable to take advantage of the accounting exemptions that status permits. The results of the Company set out on page 36 have been prepared in accordance with the requirements of Schedule 4 of the Companies Act 1985.

Reference to revenue and capital in the notes to these financial statements reflects the basis on which taxation is calculated and the treatment applied in determining the amounts available for revenue dividend distribution.

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 are charged through the profit and loss account.

Investments

Investments in unquoted companies are treated as fixed assets and stated in the balance sheet at fair valuation in accordance with the British Venture Capital Association guidelines issued in June 2003 for the valuation of venture capital investments. Further details of the guidelines adopted by the Company can be found on pages 20 and 21 of this report.

Quoted investments are valued at market bid 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.

Notes to the Financial Statements

1. Principal Accounting Policies (cont.)

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 FRS9 '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 the Company's holdings represents investments in associated undertakings.

When the Company revalues its investments during the year, any unrealised gains or losses above historical costs are credited/charged to the revaluation reserve, whilst any unrealised gains or losses below historical loss are taken straight to the profit and loss account. When an investment is sold or written off, any balance already held on the revaluation reserve in respect of that investment is transferred to the profit and loss account as a movement on reserves.

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.

2. Income

	2004	2003
	£000	£000
Income from investments:		
Dividends from unquoted companies	**125**	202
Dividends from AIM quoted companies	**26**	33
Interest on loans to unquoted companies	**62**	135
Fixed interest Government securities	**131**	69
Interest on deposits	**20**	13
	364	452

3. Administrative Expenses

	2004 £000	2003 £000
Investment advisory fee (including irrecoverable VAT)	**250**	233
Other expenses:		
Administration fee	**42**	40
Directors' remuneration (including irrecoverable VAT)	**79**	75
Auditors' remuneration:		
audit fees	**13**	12
non-audit services	**10**	11
General expenses	**70**	131
	214	269
	464	502

During the year the Company obtained tax compliance services and VCT compliance monitoring services from the Company's auditor PricewaterhouseCoopers LLP amounting to £3,000 (2003: £3,000) and £7,000 (2003: £8,000) respectively.

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. Apart from the notice period there are no other penalties on termination. No notice has been issued to or by Yorkshire Fund Managers Limited terminating the contract as at the date of this report.

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.

- 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.

The total remuneration payable to Yorkshire Fund Managers Limited in the year (excluding VAT) was £254,000 (2003: £240,000).

Notes to the Financial Statements

4.Taxation on Loss on Ordinary Activities

	2004 £000	2003 Restated £000
Corporation tax at 19% (2003:19%)	**–**	–
Loss on ordinary activities before taxation	**(755)**	(1,027)
Loss on ordinary activities multiplied by		
standard small company rate of corporation tax in the UK of 19% (2003:19%)	**(143)**	(195)
Effect of:		
UK dividends received (i)	**(29)**	(45)
Non taxable losses on investments (i)	**124**	186
Excess management expenses (ii)	**48**	54
Tax on loss on Ordinary activities	**–**	–

(i) Venture capital trusts are not subject to corporation tax on these items.

(i) The Company has no deferred tax liability.

Deferred tax assets of £765,000 (2003: £514,000) 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.

Due to the Company's status as a venture capital trust, and the continued intention to meet the conditions required to comply with the Section 842AA of the Income and Corporation Taxes Act 1988, the Company has not provided deferred tax on any capital gains and losses on the revaluation or disposal of investments.

5. Dividends

	2004 £000	2003 £000
Interim paid - nil per share (2003: 0.25p)	**–**	39
Final proposal - 4.8p per share (2003: 0.60p)	**741**	93
	741	132

6. Loss per Ordinary Share

The loss per Ordinary share is based on a loss on ordinary activities after tax of £755,000 (£2003: £1,027,000) and 15,457,000 (2003: 15,556,000) 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 2004 and, hence, basic and diluted loss 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	8,775	2,209	10,984	1,467	12,451
Opening unrealised (loss) gain	(1,881)	(754)	(2,635)	18	(2,617)
Opening valuation	6,894	1,455	8,349	1,485	9,834
Additions at cost	625	233	858	2,733	3,591
Disposal proceeds	(1,848)	(311)	(2,159)	(1,485)	(3,644)
Realised gains (losses) on disposal	140	58	198	(87)	111
Unrealised (losses) gains in the year	1,197	773	1,970	10	1,980
	7,008	2,208	9,216	2,656	11,872
Closing cost	7,349	2,244	9,593	2,722	12,315
Closing unrealised loss	(341)	(36)	(377)	(66)	(443)
Closing valuation	**7,008**	**2,208**	**9,216**	**2,656**	**11,872**

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

Total unrealised gains in the year of £1,980,000 consists of an unrealised gain of £2,746,000 which is reflected in the revaluation reserve and an impairment charge of £766,000 reflected in the profit and loss account.

8. Investments

The cost and carrying value of investments held at 31 March 2004, all of which are registered in England and Wales except where noted, are detailed as follows:

Venture capital investments

	2004			2003		
	Cost £000	**Valuation £000**	**%**	Cost £000	Valuation £000	%
Freshroast Coffee Co. Limited						
Ordinary shares of £1 each	**5**	**11**		5	26	
Debenture loan (4% over bank rate)	**40**	**40**		65	65	
	45	**51**	**0.4**	70	91	0.9
RMF Engineering Limited						
Ordinary shares of £1 each	**90**	**86**	**0.8**	90	90	0.9
Morgan Machine Knife Limited						
(In Administrative Receivership)						
Ordinary shares of £1 each	**90**	**–**		90	–	
10% 'A' Cumulative Redeemable Preference shares of £1 each	**228**	**–**		228	–	
	318	**–**	**–**	318	–	–

Notes to the Financial Statements

8. Investments (cont.)

	2004			2003		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
Ray Engineering Company Limited						
Ordinary shares of £1 each	**82**	**–**		82	–	
10.5% Cumulative Redeemable Preference shares of £1 each	**453**	**–**		453	267	
	535	**–**	**–**	535	267	2.6
International Resources Group Limited						
Ordinary shares of 1p each	**47**	**677**	**6.0**	47	600	5.9
CCCoutdoors Limted						
'A' Ordinary shares of £1 each	**155**	**1,343**		155	645	
11.5% Cumulative Redeemable Preference shares of £1 each	**–**	**–**		150	150	
11.5% Debenture loan	**–**	**–**		200	200	
	155	**1,343**	**11.8**	505	995	9.8
TIB plc						
Ordinary shares of £1 each	**–**	**–**		120	–	
9% Cumulative Redeemable Preference shares of £1 each	**–**	**–**		350	–	
12% Debenture loan	**–**	**–**		137	137	
	–	**–**	**–**	607	137	1.4
Denison Mayes Group Limited						
15% Debenture loan	**100**	**–**	**–**	100	–	–
Eagle Marketing Limited						
(In Administrative Receivership)						
Ordinary shares of £1 each	**200**	**–**		200	–	
10% Cumulative Redeemable Preference shares of £1 each	**800**	**–**		800	–	
	1,000	**–**	**–**	1,000	–	–
Images at Work Limited						
Ordinary shares of £1 each	**205**	**427**		205	205	
10.5% Cumulative Redeemable Preference Shares of £1 each	**246**	**246**		328	328	
	451	**673**	**5.9**	533	533	5.3
T&D Packaging Limited						
Ordinary shares of £1 each	**–**	**–**		250	375	
Debenture loan (3% over bank base rate subject to a minimum of 8%)	**–**	**–**		500	500	
	–	**–**	**–**	750	875	8.7

8. Investments (cont.)

	2004			2003		
	Cost	**Valuation**		Cost	Valuation	
	£000	**£000**	**%**	£000	£000	%
Sheet Piling (UK) Limited						
'B' Ordinary shares of £1 each	**110**	**808**		110	686	
9% Cumulative Redeemable Preference shares of £1 each	**–**	**–**		195	195	
12% Debenture loan	**195**	**195**		195	195	
	305	**1,003**	**8.8**	500	1,076	10.6
Baynflax Limited						
(In Administrative Receivership)						
'B' Ordinary shares of £1 each	**100**	**–**		100	–	
12% Debenture loan	**400**	**–**		400	–	
	500	**–**	**–**	500	–	–
The JDA Group Limited						
'B' Ordinary shares	**30**	**621**		30	120	
10% Cumulative Redeemable Preference shares of £1 each	**–**	**–**		42	42	
	30	**621**	**5.5**	72	162	1.6
Voxar Limited						
(Registered in Scotland)						
'B' Ordinary shares of 20p each	**250**	**195**		250	250	
Fixed Rate Convertible Unsecured loan stock	**13**	**13**		13	13	
	263	**208**	**1.8**	263	263	2.6
Imerge Limited						
'A' Ordinary shares of 1p each	**250**	**–**		250	–	
Fixed Rate Convertible Unsecured loan stock	**168**	**–**		160	160	
	418	**–**	**–**	410	160	1.6
Primal Pictures Limited						
Ordinary shares of 50p each	**400**	**220**		400	400	
10% Cumulative Redeemable Preference shares of £1 each	**100**	**100**		100	100	
	500	**320**	**2.8**	500	500	4.9
Weston Antennas Limited						
(In Administrative Receivership)						
'A' Ordinary shares of £1 each	**300**	**–**		300	–	
9% Cumulative Redeemable Preference shares of £1 each	**200**	**–**		200	–	
	500	**–**	**–**	500	–	–

8. Investments (cont.)

	2004			2003		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
Cozart Bioscience Limited						
‘B’ Ordinary shares of 0.1p each	**500**	**1,109**	**9.8**	500	500	4.9
Tamesis Limited						
Ordinary shares of 0.04p each	**350**	**87**	**0.8**	350	175	1.7
Cambridge Cognition Limited						
‘C’ Ordinary shares of £1 each	**325**	**81**	**0.7**	325	245	2.4
Special Mail Services Limited						
‘A’ Ordinary shares of 10p each	**35**	**–**		30	–	
Preferred Ordinary shares of 10p each	**30**	**–**		30	–	
Floating Rate Unsecured loan stock	**352**	**249**		240	225	
	417	**249**	**2.2**	300	225	2.2
Harlands of Hull Limited						
‘B’ Ordinary shares of £1 each	**50**	**50**		–	–	
Cumulative Redeemable Preference shares of £1 each	**300**	**300**		–	–	
Fixed Rate Convertible Unsecured loan stock	**150**	**150**		–	–	
	500	**500**	**4.4**	–	–	–
Total excluding AIM quoted investments	**7,349**	**7,008**	**61.7**	8,775	6,894	68.0

8. Investments (cont.)

Ordinary shares held in AIM quoted companies

	2004			2003		
	Cost	**Valuation**		Cost	Valuation	
	£000	**£000**	**%**	£000	£000	%
Bond International Software plc	**53**	**31**	**0.3**	53	11	0.1
SBS Group plc (In Receivership)	**100**	**-**	**-**	100	4	-
Connaught plc	**162**	**494**	**4.4**	162	301	3.0
Landround plc	**283**	**561**	**4.9**	283	200	2.0
Oasis Healthcare plc	**392**	**219**	**1.9**	392	221	2.2
Warthog plc	**365**	**18**	**0.2**	365	99	1.0
First Artist Corporation plc	**300**	**22**	**0.2**	300	41	0.4
Tikit Group plc	**225**	**260**	**2.3**	225	161	1.5
Spring Grove Property Maintenance plc	**80**	**66**	**0.6**	80	98	1.0
Cardpoint plc	**119**	**335**	**2.9**	249	319	3.1
Straight plc	**165**	**202**	**1.8**	-	-	-
Total AIM quoted investments	**2,244**	**2,208**	**19.5**	2,209	1,455	14.3
Total venture capital investments portfolio	**9,593**	**9,216**	**81.2**	10,984	8,349	82.3

Government stocks

3.5% Funding stock 1999/04	**-**	**-**	**-**	1,011	1,025	10.1
6.5% Treasury stock 2003	**-**	**-**	**-**	456	460	4.5
6.75% Treasury stock 2004	**983**	**955**	**8.4**	-	-	-
9.5% Conversion stock 2005	**989**	**947**	**8.3**	-	-	-
4% Treasury stock 2009	**750**	**754**	**6.7**	-	-	-
Total investment in Government stocks	**2,722**	**2,656**	**23.4**	1,467	1,485	14.6
Total financial asset investments	**12,315**	**11,872**	**104.6**	12,451	9,834	96.9
Cash		**184**	**1.6**		317	3.1
Other net current liabilities		**(704)**	**(6.2)**		(14)	-
Shareholders' funds		**11,352**	**100.0**		10,137	100.0

8. Investments (cont.)

Significant Interests

At 31 March 2004 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	5,271 Ordinary	13%	13%
(processes, packages and markets coffee, tea and related vending ingredients)			
RMF Engineering Limited	40,000 Ordinary	25%	–
(design and fabrication from specialist metals)	70,000 Preference	100%	–
Ray Engineering Company Limited	82,000 Ordinary	37%	–
(design and manufacture knobs and handles)	453,000 Preference	100%	–
CCCoutdoors Limited	35,992 Ordinary	22%	–
(retailer of outdoor clothing and accessories)	200,000 Preference	100%	–
Images at Work Limited	75,000 Ordinary	33%	–
(supplies and manages corporate clothing contracts)	246,000 Preference	100%	–
Sheet Piling (UK) Limited	32,659 Ordinary	36%	–
(specialist civil engineering service)			
Primal Pictures Limited	430,320 Ordinary	4%	17%
(production of anatomical CD ROMs)	300,000 Preference	13%	26%
Cambridge Cognition Limited	415,744 Ordinary	12%	9%
(a cognitive test development company)			

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.

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.

8. Investments (cont.)

Details of these investments are summarised below. The amounts shown below are the investments made at cost as at 31 March 2004.

	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	–	–	–	45	45
Voxar Limited	745	–	–	–	745
Imerge Limited	735	–	–	–	735
Primal Pictures Limited	1,000	–	–	–	1,000
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 2004 and 31 March 2003, the financial assets, by value, excluding short term trade debtors and creditors as permitted by FRS 13, comprised:

	2004		2003	
	£000	**%**	£000	%
Qualifying venture capital investments				
Ordinary shares	**7,923**	**65.7**	5,772	56.9
Fixed interest Preference shares	**646**	**5.4**	1,082	10.7
Debenture loan stock	**647**	**5.4**	1,495	14.7
	9,216	**76.5**	8,349	82.3
Fixed interest Government stocks	**2,656**	**22.0**	1,485	14.6
Cash	**184**	**1.5**	317	3.1
	12,056	**100.0**	10,151	100.0

9. Financial Instruments (cont.)

At 31 March 2004 and 31 March 2003, the financial assets, by value, excluding (as permitted by FRS 13) short-term trade debtors, and the analysis by interest rate risk, comprised:

	2004		2003	
	£000	%	£000	%
Qualifying venture capital investments				
Fixed interest investment assets	**1,004**	**8.4**	1,787	17.6
Floating rate investment assets	**289**	**2.4**	790	7.8
Ordinary shares	**7,923**	**65.7**	5,772	56.9
	9,216	**76.5**	8,349	82.3
Fixed interest Government stocks	**2,656**	**22.0**	1,485	14.6
Cash on floating rate deposit	**184**	**1.5**	317	3.1
	12,056	**100.0**	10,151	100.0

The weighted average interest rate on fixed rate financial assets in venture capital investments held at 31 March 2004 was 8.4% (2003: 9.0%). The weighted average period for which these rates applied was 2 years, 6 months (2003: 2 years, 7 months). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 7.2% (2002: 8.1%) with a weighted average period of 1 year (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 repayment premium.

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.

9. Financial Instruments (cont.)

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

	2004	2003
	£000	£000
Amounts receivable within one year:		
Prepayments and accrued income	**101**	156

11. Creditors

	2004	2003
	£000	£000
Amounts payable within one year:		
Accrued expenses	**64**	77
Proposed dividend	**741**	93
	805	170

The average number of creditor payment days during the year was 28 (2003: 43).

12. Deferred Tax

There are no amounts provided or unprovided in respect of deferred tax (2003: £nil).

13. Called-up Share Capital

		2004		2003	
		Authorised	**Allotted, Called-up and Fully paid**	Authorised	Allotted, Called-up and Fully paid
		£000	**£000**	£000	£000
Ordinary shares of 10p					
Authorised:	18,000,000 (2003: 18,000,000)				
Issued:	15,435,838 (2003: 15,517,838)	**1,800**	**1,544**	1,800	1,552

The movements in the year were as follows:

	Date	Number	Share Capital £000
As at 1 April 2003		15,517,838	1,552
Purchases	June 03	(75,000)	(8)
	July 03	(2,000)	–
	November 03	(5,000)	–
As at 31 March 2004		**15,435,838**	**1,544**

Full details of the share purchases are set out in the Directors' Report under the heading 'Share Capital and Purchase of Own shares'.

Notes to the Financial Statements

14. Reserves

The movements in the year were as follows:

	Capital Redemption Reserve £000	Capital Reserve - realised £000	Capital Reserve - unrealised £000	Revaluation Reserve £000	Special Reserve £000	Profit and Loss Account* £000
At 1 April 2003 as previously reported	35	(2,498)	(2,617)	–	13,647	18
Prior year adjustment	–	2,498	2,617	2,099	–	(7,214)
At 1 April 2003 as restated	35	–	–	2,099	13,647	(7,196)
Unrealised gain on revaluation of investment portfolio	–	–	–	2,746	–	–
Realisation of gains on valuation of investments in prior years	–	–	–	194	–	(194)
Transfer from special reserve to profit and loss account	–	–	–	–	(9,741)	9,741
Purchase of own shares	8	–	–	–	(35)	–
Loss for the year	–	–	–	–	–	(1,496)
As at 31 March 2004	**43**	**–**	**–**	**5,039**	**3,871**	**855**

* Previously referred to as 'revenue reserve' in the prior year financial statements.

A transfer has been made from the special reserve to the profit and loss account which equates to the accumulated realised capital losses of prior periods.

In prior years, as an investment company, accounts were prepared in accordance with the Statement of Recommended Practice *'Financial Statements of Investment Trust Companies.'* As a result of the revocation of investment company status, the Company is required to prepare accounts in accordance with Schedule 4 of the Companies Act 1985 which has resulted in the statement of total return being restated as a profit and loss account and a number of reserves also being restated. The Companies Act 1985 requires that all realised gains and losses, including those arising from the disposal of investments, are included in the results for the year. When the Company revalues its investments, any unrealised gains or losses above historical cost are credited/charged to the Revaluation reserve, whilst any unrealised gains or losses below historical cost are taken straight to the profit and loss account.

The notes on page 19 reconcile the statement of total return to the profit and loss account for 2003 and 2004.

15. Reconciliation of Movements in Shareholders' Funds

	2004 £000	2003 Restated £000
Beginning of the year	**10,137**	10,681
Loss on ordinary activities after taxation	**(755)**	(1,027)
Purchase of own shares	**(35)**	(81)
Dividends paid and payable	**(741)**	(132)
Net unrealised movement in the year	**2,746**	696
As at 31 March	**11,352**	10,137

16. Net Asset Value per Ordinary Share

The net asset value per Ordinary share is calculated on attributable assets of £11,352,000 (2003: £10,137,000) and 15,435,838 (2003: 15,517,838) shares in issue at the year end. The Company has no securities that would have a dilutive effect in either year and, hence, the basic and diluted net asset value per share are the same.

17. Reconciliation of Loss on Ordinary Activities before Taxation to Net Cash Outflow from Operating Activities

	2004 **£000**	2003 Restated £000
Loss on ordinary activities before taxation	**(755)**	(1,027)
Decrease (increase) in prepayments and accrued income	**55**	(89)
(Decrease) increase in accruals	**(13)**	24
(Gain) loss on realisation of investments	**(111)**	13
Impairment of investments in the year	**766**	964
Net cash (outflow) from operating activities	**(58)**	(114)

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

	2004 **£000**	2003 £000
(Decrease) increase in cash in the year	**(133)**	42
Cash outflow (inflow) from decrease (increase) in liquid resources	**1,248**	(445)
Changes in net funds resulting from cash flows	**1,115**	(403)
Other non-cash items:		
Movement in value of current asset quoted investments	**(77)**	9
Net funds at beginning of year	**1,802**	2,196
Net funds at 31 March	**2,840**	1,802

19. Analysis of Net Funds

	31 March 2003 £000	Cash flow £000	Other non cash changes £000	**31 March 2004 £000**
Cash	317	(133)	-	**184**
Current asset investments	1,485	1,248	(77)	**2,656**
	1,802	1,115	(77)	**2,840**

20. Financial Commitments

Investments totalling £25,000 (2003: £308,000) approved by the Board of Directors at 31 March 2004, have not been reflected in these accounts.

Notes to the Financial Statements

21. Related Party Transactions

Mr Leach and Mr Cammerman are director and executive chairman respectively of Yorkshire Fund Managers Limited, the Investment Adviser to the Company and a wholly owned subsidiary of Yorkshire Enterprise Group Limited, which held 3.4% of the issued share capital of British Smaller Companies VCT plc at 31 March 2004 (2003: 3.4%). Mr Leach and Mr Cammerman are also chairman and director respectively of Yorkshire Enterprise (Group) Holdings Limited, the ultimate parent company of Yorkshire Fund Managers Limited, in which they both have a beneficial shareholding. No such beneficial shareholding existed in the prior year.

During the year Yorkshire Fund Managers Limited received remuneration amounting to £254,000 (2003: £240,000) in respect of services provided in accordance with the Investment Advisory Agreement dated 28 February 1996. At 31 March 2004 there were no amounts owing to or from Yorkshire Fund Managers Limited (2003: £Nil).

Mr Pettigrew is 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. Mr Pettigrew also holds a 0.1% equity interest in this company. During the year he received remuneration of £9,000 (2003: £8,000) 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 £5,000 (2003: £6,000) from Tamesis Limited in respect of his services.

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 a 0.92% equity interest in this company. In addition, Equity Ventures Limited, a company in which Mr Lindemann has a beneficial interest, was paid £12,000 by International Resources Group Limited in respect of his services (2003: £15,000).

Mr Leach is a non-executive director of 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 direct from that company in respect of his services in either year. Yorkshire Fund Managers Limited, a wholly owned subsidiary of Yorkshire Enterprise Group (Holdings) Limited in which Mr Leach has a beneficial interest, was paid £5,000 by The JDA Group Limited in respect of his services (2003: £8,000).

Under the Subscription Rights Agreement dated 28 February 1996 (assigned as described on pages 31 to 32), The Yorkshire Fund Managers Limited Trust 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 2004, calculated on a total return basis.

22. Post Balance Sheet Events

On 8 June 2004 the Company invested £225,000 in Amino Technologies plc on its admission to AIM. The investment was by way of 187,500 Ordinary shares.

Notice of the Annual General Meeting

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 22 July 2004 at 12.45pm for the following purposes:

To consider and, if thought fit, pass the following resolutions:

As Ordinary Business

ORDINARY RESOLUTIONS

1. To receive the Annual Report and accounts for the year ended 31 March 2004.

2. To declare a final dividend for the year to 31 March 2004 of 4.8p per Ordinary share.

3. To approve the Directors' Remuneration Report.

4. To re-elect as a Director Mr R Lindemann who retires by rotation.

5. To re-elect as a Director Mr J J Seed who retires by rotation.

6. To re-elect as a Director Mr C J Brown who retires by rotation.

7. To reappoint PricewaterhouseCoopers LLP as independent auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.

BY ORDER OF THE BOARD

J E P Gervasio
Secretary
15 June 2004

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

Notice of the Annual General Meeting

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, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU 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 12.45pm on 20 July 2004 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 pages 22 and 23 of the Annual Report.

Financial Summary

	Year ended 31 March 2004	Year ended 31 March 2003 Restated	Year ended 31 March 2002	Year ended 31 March 2001	15 months ended 31 March 2000
Income	**£364,000**	£452,000	£667,000	£730,000	£860,000
Loss on ordinary activities before tax	**£(755,000)**	£(1,027,000)	£346,000	£424,000	£556,000
Loss on ordinary activities after tax	**£(755,000)**	£(1,027,000)	£323,000	£376,000	£502,000
Loss per Ordinary share	**(4.88)p**	(6.60)p	–	–	–
Total recognised gain (loss)					
per Ordinary share	**12.87p**	(2.13)p	(13.02)p	(4.38)p	(5.79)p
Dividend per share	**4.80p**	0.85p	2.00p	2.30p	3.15p
Net assets	**£11,352,000**	£10,137,000	£10,681,000	£13,086,000	£14,188,000
Net asset value per share	**73.5p**	65.3p	68.0p	82.9p	89.6p
Number of qualifying investments	**32**	32	32	28	19
Value of qualifying investments	**£9,216,000**	£8,349,000	£8,612,000	£9,605,000	£8,399,000

The consequences of the revocation of investment company status have not been reflected in the disclosures for the years ended 31 March 2000, 2001 or 2002. The loss on ordinary activities before and after tax for those periods relate to the revenue return as calculated in accordance with the Statement of Recommended Practice '*Financial Statements of Investment Trust Companies*'.

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