

Annual Report  
for the year ended  
31 March 2005



**BRITISH  
SMALLER  
COMPANIES  
VCT**      **plc**

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# British Smaller Companies VCT plc

Advised by YFM Private Equity Limited, British Smaller Companies VCT plc provides venture capital funding of up to £1m to VCT qualifying 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

- Further significant growth in net asset value.
- Post year end realisation at enhanced valuation.
- Total dividend for the year of 4.8p per Ordinary share.
- Total return increases to 113.4p per Ordinary share.
- Introduction of a dividend reinvestment scheme.

	2005	2004
Loss before and after taxation	<b>£(45,000)</b>	£(755,000)
Total recognised gains	<b>£2,347,000</b>	£1,991,000
Dividend per share paid and proposed	<b>4.8p</b>	4.8p
Total cumulative dividends paid & proposed	<b>29.0p</b>	24.2p
Net asset value per Ordinary share	<b>84.4p</b>	73.5p
Aggregate net asset value return	<b>113.4p</b>	97.7p

## Financial Calendar

- Results Announced

8 June 2005

- Ex-dividend Date

15 June 2005

- Record Date

17 June 2005

- Annual General Meeting

26 July 2005

# Chairman's Statement

It is pleasing to be able to report further significant growth in the net asset value of your Company and to propose a third and final dividend distribution in respect of the year ended 31 March 2005. Successful realisations in the year and the flotation of Cozart plc, together with a continued general upward trend in the performance of the unquoted portfolio, has seen net asset value grow, on a like-for-like basis and before distributions, 21.4% over the year as a whole. This brings the cumulative increase on the same basis over the past three years to 39.5%. In that period, a total of 10.45 pence per Ordinary share has been proposed and paid to shareholders as a tax free dividend.

## Investment Portfolio

Allowing for the retention of a suitable level of liquid funds to meet follow-on funding requirements from the existing portfolio and selective new investment opportunities, your Company has been fully invested for some time now. The level of investment activity in any year will be dependent upon cash generated from realisations that the Board allocates for such purposes. A total of just over £400,000 was invested in the year to 31 March 2005.

Following the realisation of Amino Technologies plc and the lightening of some other AIM stock holdings to crystallise gains, there was a total of £1.97 million of cash and liquid investments at 31 March 2005. Of this, £333,000 is allocated for the proposed final dividend. The balance provides sufficient reserves to meet the operational requirements of your Company and estimated funding requirements for the current portfolio whilst still providing enough cash to meet selected investment opportunities as they arise.

In line with the Board's policy of providing full information to shareholders, a summary of all the investments within the current portfolio, together with a review of developments within the portfolio over the year as a whole, is included within the Investment Adviser's review that follows this statement.

I am pleased to announce that, following the year end, your Company's investment in Harlands of Hull Limited has been successfully realised through the trade sale of that company to Clondalkin Group. Your Company invested £500,000 in September 2003 to support a management buy-out in Harlands of Hull Limited, a leading UK specialist manufacturer of self-adhesive labels. An initial cash payment of £1.55 million has been received in respect of the sale, with up to a further £157,000 cash payment due dependent upon certain conditions being met. The carrying value of this investment in the balance sheet at 31 March 2005 was £1.42 million.

## Financial Results and Dividend

The reported result in the profit and loss account for the year was a loss of £45,000. However, after allowing for the net capital appreciation in the investment portfolio that is taken straight to the revaluation reserve (being unrealised gains above cost), the total recognised gain for the year under review was £2.3 million, equivalent to 15.3 pence per Ordinary share.

The directors are proposing a final dividend for the year of 2.2 pence per Ordinary share. Following the interim and special interim dividend already paid in November 2004 and February 2005 respectively, the final dividend, if approved, will take total distributions in respect of the year to 31 March 2005 to 4.8 pence per Ordinary share, which is tax free to eligible shareholders. The final dividend will be payable on 5 August 2005 to holders of Ordinary shares on the register at 17 June 2005.

The net asset value, after providing for the proposed dividend, is 84.4 pence per Ordinary share. After taking account of the total dividends paid and proposed to date of 29 pence per Ordinary share, the return to 31 March 2005 for qualifying founder shareholders amounts to 113.4 pence per Ordinary share, compared with their initial net subscription of 80 pence per Ordinary share.

*"It is pleasing to be able to report further significant growth in the net asset value of your Company"*

*“The portfolio continues to provide significant growth as the underlying companies move toward maturity and exit potential.”*

## Shareholders and Fundraising

Following our appointment of new brokers, Teather & Greenwood, toward the end of 2004, I am pleased to report that the discount of the Company's share price to its net asset value has narrowed, thus providing better liquidity for those shareholders who wish to, or need to, dispose of their stock. The share price is generally at a 10% discount to net asset value, reflecting the Board's stated policy of buying back shares in the market for cancellation at that level. The Board has agreed to continue this policy where it is, in its opinion, in the remaining shareholders' interests to do so. During the year just ended, a total of 318,000 Ordinary shares were purchased in the market for cancellation.

In furtherance of implementing policies and schemes for the benefit of shareholders, the Extraordinary General Meeting on 7 January 2005 approved the introduction of a dividend reinvestment scheme. This enables shareholders to increase their total holding in the Company without incurring dealing costs, issue costs or stamp duty. Subject to individual circumstances, these shares should qualify for the 40 per cent tax relief that is applicable to subscriptions for new shares in venture capital trusts. In relation to the 2005 dividend, this scheme will apply only to holders of Ordinary shares. A Circular to shareholders offering the holders of Ordinary shares the opportunity to participate in this Scheme accompanies this Annual Report.

Shareholders will be aware that a C share issue, at a price of £1 per share, was made by your Company on 7 January 2005. I have to report that the level of subscriptions received to date has so far been disappointingly low. Including allotments since the year end, the total subscribed under the C share offer is currently £1.25 million, of which just under £250,000 had been allotted at 31 March 2005. As these are a separate class of shares, to be converted into Ordinary shares at a future date, the net asset value is reported separately on the balance sheet. The C shares do not qualify for any dividend distribution in respect of the financial year to 31 March 2005. The directors have decided to extend the Offer until 23 June 2005 and are keeping under review the date on which the C shares will be converted into Ordinary shares.

## Your Board

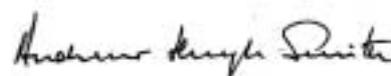
On 3 May 2005, Stephen Noar joined the Board as a non-executive director. Stephen, a dentist by profession, was the founder chairman and chief executive of Denplan Limited until its successful trade sale in 2003; in the following year winning the Financial Times Venturer of the Year Award. He is well known to this Board through his involvement with the other VCTs in the British Smaller Companies stable. I am delighted that Stephen has agreed to join the Board as he brings a wealth of experience to our investment work.

This is the final part of the Board restructuring that took effect from October 2004 and provides a range of complimentary skills within a tight, but sufficiently flexible, framework. Stephen's appointment is subject to his election by shareholders at the forthcoming Annual General Meeting.

## Outlook

The portfolio continues to provide significant growth as the underlying companies move toward maturity and exit potential. The challenge for our Investment Adviser is to maintain this momentum in an economic climate that shows signs of uncertainty and potential slowdown. Your Board will be working with the YFM Private Equity team to critically assess the new investment opportunities that are presented to us, whilst ensuring that the existing portfolio is focused on delivering shareholder value.

Your Board's aim is to balance this continued growth with providing shareholders with a steady, attractive, tax free dividend income. The introduction of the dividend reinvestment scheme will enable eligible shareholders who wish to take advantage of the available income tax relief to reinvest their proceeds in an appropriate way and provide additional funds for investment, whilst allowing those shareholders who require cash returns to still benefit from a tax free income.



Sir Andrew Hugh Smith  
Chairman  
20 June 2005

# 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. In some instances a different valuation methodology has been adopted to that used in prior years as the directors believe it better reflects the fair value of the investment.

## Unquoted Companies

### **CCC** outdoors

### CCCooutdoors Limited

Cost	£155,000
Valuation	£1,642,000
Dates of investment	May 1998 and March 2002
Equity held	22.96%
Valuation basis	Earnings multiple
Location	Sheffield

For the year ended 1 February 2004 audited pre-tax profits were £0.95m on turnover of £9.02m (2003 53 week period: £0.57m and £6.97m respectively). At 1 February 2004 net assets were £2.52m (2003: £1.89m).

#### Consumer Products

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.

In June 2004, CCC opened a new 50,000 sq.ft. site in Coventry, which has traded well from opening.

[www.ccc-outdoors.co.uk](http://www.ccc-outdoors.co.uk) and [www.mitchellscamping.co.uk](http://www.mitchellscamping.co.uk)



### Harlands of Hull Limited

Cost	£500,000
Valuation	£1,417,000
Date of investment	September 2003
Equity held	23.34%
Valuation basis	Earnings multiple
Location	Hull

For the year ended 30 June 2004 audited pre-tax profits were £0.19m on turnover of £1.26m (2003: £0.67m on turnover of £5.65m). At 30 June 2004 net assets were £0.09m (2003: net liabilities £0.39m).

#### Industrial

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. The excellent trading performance in the period since our investment has justified a significant valuation uplift on cost.

Following the year end Harlands was acquired in a trade sale, which generated further profit to British Smaller Companies VCT plc.

[www.harlands.co.uk](http://www.harlands.co.uk)

# Investment Adviser's Review

## Sheet Piling (UK) Limited



Cost	£305,000
Valuation	£1,044,000
Date of investment	June 2000
Equity held	36.00%
Valuation basis	Earnings multiple
Location	Preston

For the year ended 25 May 2003 audited pre-tax profits were £0.66m on turnover of £9.21m (2002: £0.45m and £7.72m respectively). At 25 May 2003 net assets were £1.38m (2002: £0.93m).

### Construction

From its headquarters in Preston, Sheet Piling is one of the UK's leading driven steel piling contractors and carries out contracts throughout the UK for a variety of sectors using its 'state of the art' equipment. The investment of £500,000 supported the management buy-out from Allen plc.

The company has recently been very successful in developing the use of sheet piles as the permanent walls of underground basements and car park structures.

[www.sheetpilinguk.com](http://www.sheetpilinguk.com)

## International Resources Group Limited



Cost	£47,000
Valuation	£820,000
Dates of investment	February 1998 and March 2000
Equity held	6.55%
Valuation basis	Earnings multiple
Location	London

For the year ended 31 December 2003 audited pre-tax profits were £1.24m on turnover of £25.19m (2002: £0.32m loss on £19.67m turnover). At 31 December 2003 net assets were £1.19m (2002: £0.68).

### Support Services

International Resources Group 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 now rated by Executive Grapevine as fourth out of the top ten search firms in the UK, with a reputation for providing recruitment successes across a wide range of sectors. The company is benefiting from a recovery in the recruitment sector generally but is also gaining market share from its competitors.

[www.odgers.com](http://www.odgers.com)

# Investment Adviser's Review



## Special Mail Services Limited

Cost	£391,000
Valuation	£565,000
Dates of investment	September 2002, September 2003 and February 2004
Equity held	6.58%
Valuation basis	Earnings multiple
Location	Northampton

For the year ended 31 March 2004 audited pre-tax losses were £3.42m on turnover of £23.88m (2003 six months: £1.01m and £9.45m respectively). At 31 March 2004 net liabilities were £3.26m (2003: £0.08m).

### Support Services

Special Mail Services is a specialist secure mail delivery company with nationwide coverage of the UK. After the original investment, which supported the management buy-out/buy-in of Special Delivery Services Limited, a further investment was made as part of the funding for the expansion of depots following the award of a substantial contract for the delivery of UK Passports. The company has continued to undergo significant change, having nearly doubled in size in less than a year following its expansion.

The financial performance is currently exceeding expectations and the company is continuing to invest in its expanded infrastructure, so as to make itself an attractive prospect for a trade buyer seeking to enter this specialist delivery sector.

[www.sdsco.com](http://www.sdsco.com)



## The JDA Group Limited

Cost	£30,000
Valuation	£496,000
Date of investment	September 2000
Equity held	15.00%
Valuation basis	Earnings multiple
Location	Leeds

For the year ended 31 December 2003 audited pre-tax profits were £0.71m on turnover of £15.47m (2002: £0.26m and £12.65m respectively). At 31 December 2003 net assets were £1.28m (2002: £1.06m).

### Support Services

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 21 years industry experience, it has been able to provide successful marketing solutions for clients such as Royal Mint, British Telecom, HBOS, Tui, Lakeland and Cattles.

The acquisition of a company in Warrington has extended geographical coverage and added PR and new creative skills to widen the media offering.

[www.jda.co.uk](http://www.jda.co.uk)



## Images at Work Limited

Cost	£345,000
Valuation	£477,000
Date of investment	March 1999
Equity held	33.33%
Valuation basis	Earnings multiple
Location	Salisbury

For the year ended 30 September 2004 audited pre-tax profits were £0.07m on turnover of £4.76m (2003: £0.22m and £5.34m respectively). At 30 September 2004 net assets were £0.69m (2003: £0.75m).

### Support Services

Images at Work supplies and manages corporate 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 within the security services sector reflects the market's growing perception of Images' brand as one synonymous with providing cost efficiencies and quality of service.

Due to an increasing amount of business with the emergency services and other public bodies, a new division has been established to deal solely with this area of the business.

[www.iaw.co.uk](http://www.iaw.co.uk)

# Investment Adviser's Review

## Primal Pictures Limited



Cost	£500,000
Valuation	£305,000
Date of investment	March 2001
Equity held	3.84%
Valuation basis	Impairment to valuation at last reporting date
Location	London

For the year ended 31 December 2003 audited pre-tax losses were £0.66m on turnover of £2.18m (2002: £1.35m and £1.67m respectively). At 31 December 2003 net liabilities were £0.18m (2002: net assets £0.34m).

### Healthcare

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons. Images derived from X-ray, magnetic resonance and other scan data enable the production of completely authentic anatomical data.

With the completion of its ultimate objective, a mapping of the whole anatomy, the company has begun to expand its business development activities to the very large and potentially lucrative student market.

[www.primalpictures.com](http://www.primalpictures.com)

## Cambridge Cognition Limited



Cost	£325,000
Valuation	£81,000
Date of investment	May 2002
Equity held	11.91%
Valuation basis	Valuation at last reporting date
Location	Cambridge

For the year ended 31 December 2003 audited pre-tax losses were £0.89m on turnover of £1.13m (2002: £0.81m and £0.61m). At 31 December 2003 the aggregate net assets were £0.91m (2002 restated: £0.72m)

### Software

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of disorders linked to the central nervous system, including Alzheimer's disease and other forms of dementia. It supplies software and licenses to pharmaceutical, academic and medical customers across the globe.

The CANTAB test battery and its product range is currently used by more than 400 universities and research sites, in over 30 countries around the world.

[www.camcog.com](http://www.camcog.com)

## Freshroast Coffee Co. Limited



Cost	£20,000
Valuation	£21,000
Date of investment	July 1998
Equity held	12.97%
Valuation basis	Impairment to valuation at last reporting date
Location	Elland

For the year ended 31 December 2003 audited pre-tax profits were £0.04m on turnover of £2.64m (2002: pre-tax profits of £0.06m and £2.94m respectively). At 31 December 2003 net assets were £0.21m (2002: £0.24m).

### Consumer Products

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

Following the sale of the on-site vending machine operation, the company continues to concentrate on its core business. The loan advanced at the time of the original investment continues to be repaid on a monthly basis in line with the revised schedule.

# Investment Adviser's Review



## 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 (2001: £0.08m).

### Industrial

Denison Mayes manufactures a wide range of materials testing equipment used in the engineering market.

Since an agreement was reached to sell the equity stake in this company back to management in September 2001, your Company has a residual loan of £100,000 remaining, which is repayable from August 2006.

[www.denisonmayesgroup.com](http://www.denisonmayesgroup.com)



## 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	0.10%
Valuation basis	Full impairment
Location	Cambridge

For the year ended 31 December 2003 audited pre-tax losses were £0.89m on turnover of £3.25m (2002: £3.56m and £2.00m respectively). At 31 December 2003 net liabilities were £5.48m (2002: £4.58m).

### Software

Imerge, which is headquartered in Cambridge, has developed internet-connected hard disk-based audio products and media appliances. Products include the XiVA™ Media Appliance Technology, XiVA-Net Entertainment Portal for music and video products and the SoundServer range of hard disk audio devices.

[www.imerge.co.uk](http://www.imerge.co.uk) and [www.xiva.com](http://www.xiva.com)

# Investment Adviser's Review

## RMF Engineering Limited



Cost	£90,000
Valuation	£Nil
Date of investment	February 1997
Equity held	25.00%
Valuation basis	Full impairment
Location	Dinnington

For the year ended 31 December 2003 audited pre-tax losses were £0.05m on turnover of £2.77m (2002: £0.09m and £2.55m respectively). At 31 December 2003 net assets were £0.61m (2002: £0.66m).

### Industrial

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 in 2003, its traditional markets returned to making large capital expenditure decisions in 2004, although competition for raw materials has presented new challenges. The company has identified a steady profitable business in repair, maintenance and modifications to existing plant within the UK market.

[www.rmf-engineering.co.uk](http://www.rmf-engineering.co.uk)

## Tamesis Limited



Cost	£350,000
Valuation	£Nil
Date of investment	July 2001
Equity held	3.88%
Valuation basis	Full impairment
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 2003 net assets were £0.29 m (2002: £0.32m).

### Software

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.

Despite initial optimism, the IT spend by banks in this very specialised area was limited during 2004 and this trend continued into the first half of 2005.

[www.tamesis.com](http://www.tamesis.com)

# Investment Adviser's Review

## AIM Quoted Companies



### Cozart plc

Cost	£500,000
Valuation	£1,772,000
Date of investment	May 2001
Equity held	4.80%
Number of shares held	4,322,556
Valuation basis	Quoted bid price
Location	Abingdon

For the year ended 31 May 2004 audited pre-tax profits were £0.11m on turnover of £4.04m (2003: £0.99m loss on £2.55m turnover). At 31 May 2004 net assets were £0.88m (2003: £0.70m).

#### Healthcare

Cozart is a pioneering medical diagnostics company which provides innovative immunodiagnostic tests, particularly those that detect drugs of abuse. In recent years, Cozart has made promising early sales through the Home Office and these contracts are expected to grow rapidly in the UK as the Government announces initiatives to break the links between drugs and crime.

The highly portable RapiScan system is suitable for on-site testing of motorists for evidence of drug use with ease, speed and accuracy. It is these features that are attracting strong interest in home markets as well as being trialled in many overseas locations. [www.cozart.co.uk](http://www.cozart.co.uk)



### Straight plc

Cost	£301,000
Valuation	£574,000
Dates of investment	February 2004 and January 2005
Equity held	2.57%
Number of shares held	291,350
Valuation basis	Quoted bid price
Location	Leeds

For the year ended 31 December 2004 audited pre-tax profits were £0.71m on turnover of £12.81m. (2003: £0.45m and £10.18m respectively). At 31 December 2004 net assets were £2.61m (2003: £2.27m).

#### Industrial

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. Since flotation, the company has announced an exclusive alliance with Rehig Pacific Company of Los Angeles, the world's largest producer of food transit containers, to offer its innovative range in the UK and Europe. The shares responded well when the company announced the takeover of its main rival, Blackwall, in January 2005. [www.straight.co.uk](http://www.straight.co.uk)

# Investment Adviser's Review

## Landround plc



Cost	£283,000
Valuation	£499,000
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 2004 pre-tax profits were £1.55m on turnover of £13.24m (2003: £1.96m and £9.89m respectively). At 30 September 2004 net assets were £5.73m (2003: £4.55m).

### Consumer Products

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.

After a strong recovery in 2003 from the previous hostilities in the Middle East and Foot and Mouth disease, the company suffered a profits setback arising from high redemption levels in one voucher promotion. Nevertheless, turnover continues to grow impressively and Morgan Stanley has contracted to issue a Buy 'n' Fly credit card, adding considerably to Landround's retail reach.

[www.landround.com](http://www.landround.com)

## Connaught plc



Cost	£108,000
Valuation	£428,000
Dates of investment	November 1998, July 1991 and January 2001
Equity held	0.41%
Number of shares held	79,200
Valuation basis	Quoted bid price
Location	Sidmouth

For the year ended 31 August 2004 audited pre-tax losses were £2.52m on turnover of £208.97m (2003 restated: £0.79m and £157.82m respectively). Fully diluted loss per share was 13.9p with a full year dividend per share of 8.1p (2003: earnings of 0.7p and dividend of 7.7p respectively). At 31 August 2004 net assets were £23.76m (2003: £26.54m).

### Consumer Products

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 continues to make strong progress and, having withdrawn from the corporate market, benefits from long term turnover visibility, mainly derived from public sector repair and maintenance contracts.

The recent acquisition of a similar company in Scotland has positioned Connaught to capture a significant proportion of the public sector housing remedial spend planned over the next decade. The carefully executed growth plan has seen the share rated as one of the most consistent on AIM.

[www.connaught.plc.uk](http://www.connaught.plc.uk)

# Investment Adviser's Review



## Tikit Group plc

Cost	£225,000
Valuation	£354,000
Date of investment	June 2001
Equity held	1.53%
Number of shares held	195,752
Valuation basis	Quoted bid price
Location	London

For the year ended 31 December 2004 audited pre-tax profits were £0.86m on turnover of £11.90m (2003: £0.71m and £9.56m respectively). At 31 December 2004 net assets were £4.70m (2003 restated: £3.41m).

### Software

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 a majority of the top 50 UK legal practices.

The general recovery in the IT market has benefited Tikit, where steadily increasing sales and profits are expected on the back of an encouraging pipeline of enquiries. The acquisition of LECSOFT SaS, a Paris-based consultancy and systems integration business, in August 2004 has given the company access to a large new European client base.

[www.tikit.com](http://www.tikit.com)



## Cardpoint plc

Cost	£119,000
Valuation	£306,000
Date of investment	June 2002
Equity held	0.41%
Number of shares held	248,396
Valuation basis	Quoted bid price
Location	Lytham St Annes

For the year ended 30 September 2004 audited pre-tax losses were £3.06m on turnover of £36.81m (2003: £0.61m on £12.17m respectively). Loss per Ordinary share was 7.56p (2003: 2.50p) and no dividends were paid in either year. At 30 September 2004 net assets were £36.39m (2003: £6.94m).

### Consumer Products

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

The company has reported key performance indicators ahead of expectations during the roll out phase. It also diversified into mobile phone top-up points and embarked on a strategy to develop its cash machine presence in Europe. The high profile acquisition of 816 HBOS cash point sites confirmed the company as a serious contender in this consolidating market place.

[www.cashcardservices.co.uk](http://www.cashcardservices.co.uk)



## Oasis Healthcare plc

Cost	£392,000
Valuation	£119,000
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 2004 audited pre-tax losses were £3.40m on turnover of £73.91m (2003: £2.27m and £46.87m respectively). At 31 March 2004 net assets were £11.76m (2003: £15.14m).

### Healthcare

Oasis Healthcare owns and operates dental practices providing both NHS and private treatment. Following the recent closure of three loss making practices, there are now 122 practices in the Oasis estate with an annualised turnover of over £70m.

A new chief executive was appointed in August 2004. Following an operating review, changes have been implemented to deliver growth out of the existing practice portfolio.

[www.oasis-healthcare.com](http://www.oasis-healthcare.com)

# Investment Adviser's Review

## Bond International Software plc



Cost	£53,000
Valuation	£78,000
Date of investment	December 1997
Equity held	0.32%
Number of shares held	80,769
Valuation basis	Quoted bid price
Location	Worthing

For the year ended 31 December 2004 audited pre-tax profits were £1.88m on turnover of £8.62m (2003: £0.45m and £704m respectively). At 31 December 2004 net assets were £8.55m (2003: £3.08m).

### Software

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 proprietorial software known as ADAPT which is now firmly established as the world's leading staffing software.

Bond has experienced better trading throughout 2004 and has benefited from the recovery in the recruitment market. Its success has been reflected in strong share price performance.  
[www.bondadapt.com](http://www.bondadapt.com)

## First Artist Corporation plc



Cost	£300,000
Valuation	£37,000
Dates of investment	March and December 2001
Equity held	1.79%
Number of shares held	857,876
Valuation basis	Quoted bid price
Location	Wembley

For the 12 months ended 31 October 2004 audited pre-tax losses were £0.49m on turnover of £3.98m (16 months ended 31 October 2003: £15.00m and £4.23m). At 31 October 2004 net assets were £1.08m (2003: £1.48m).

### Support Services

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, 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. The company has diversified to offer wealth management services to its client base. However, this is not yet sufficient to replace the earnings in the heyday of the football transfer market.  
[www.1startist.com](http://www.1startist.com)

## Warthog plc



Cost	£365,000
Valuation	£10,000
Dates of investment	January 2001 and January 2002
Equity held	0.23%
Number of shares held	790,000
Valuation basis	Quoted bid price
Location	Cheadle

For the year ended 31 March 2004 audited pre-tax losses were £9.24m on turnover of £5.67m (2003: £0.79m and £11.42m respectively). At 31 March 2004 net assets were £3.50m (2003: £7.83m).

### Consumer Products

Warthog is a developer of interactive entertainment software, with a focus on computer games. Admission on to AIM in 2001 enabled the company to expand its game pipeline and portfolio whilst raising its profile to increase its ability to negotiate attractive development contracts with publishers and potential acquisitions.

Against a background of weak demand and shrinking margins in the games market, some publishers delayed development work and themselves experienced harsh conditions, in some cases causing the shelving of products. Following the year end the investment in Warthog was sold for net proceeds of £5,500.  
[www.warthog.co.uk](http://www.warthog.co.uk)

# Investment Adviser's Review

We are pleased to report that the last year has delivered excellent growth in shareholder value; over the whole year, a growth of 21.4% was achieved in the net asset value, before dividend distribution paid and proposed, of which nearly two thirds of this increase was attributable to the second half of the year. Whilst several companies contributed to this strong performance, the major valuation uplifts were attributed to Harlands of Hull Limited due to excellent trading results and buyer interest, and to Cozart plc as a result of its admission to AIM and the resultant share price improvement. Together, these accounted for 70% of the rise in the year.

Providing general economic sentiment holds up, I believe there is more latent value to be released from the portfolio in due course, and I comment in more detail on some of the prospects later in this report.

Cash and gilts (excluding proceeds of the C share issue) totalled £1.97m at 31 March 2005. The liquid resources currently available in the Company will be boosted by the proceeds of the sale of Harlands of Hull Limited, by the new money subscribed in the 'C' share issue and by the implementation of the dividend reinvestment scheme. The Company is well placed to further support the expansion plans of its existing portfolio and to take advantage of selective investment opportunities.

## Investment Activity

The Company has been, effectively, fully invested for the last two years, and able to be selective in choosing only the best new propositions. In a stable portfolio, the requirement for follow-on investment has, to date, been minimal, although further funding to support the expansion plans of some of the investments may well be required.

During the year, an investment of £225,000 was made in Amino Technologies plc on its admission to AIM. Amino Technologies was well known to us and the Board through the early stage investments in that company by the two British Smaller Technology Company VCTs. Amino Technologies is a leading developer of broadband technologies for digital broadcast and on-demand TV. The shares enjoyed a very sharp price rise and, after some small disposals in November 2004, we were able to dispose of the balance of our holding, netting an overall profit of £181,000.

A notable opportunity arose in January 2005 to add to our investment in Straight plc when it needed support to finance the acquisition of a competitor. The Company contributed £176,000 of the £5 million total raised. The acquisition of the competitor subsequently concluded satisfactorily and the successful integration of the two businesses has made Straight plc the leading UK supplier in its market.

Whilst Connaught plc has been a long-term and consistent performer in the portfolio, we took the opportunity to make three disposals over the summer of 2004 as the share price demonstrated strength. The combined disposals amounted to £179,000, netting a profit of £117,000 when compared with the purchase price.

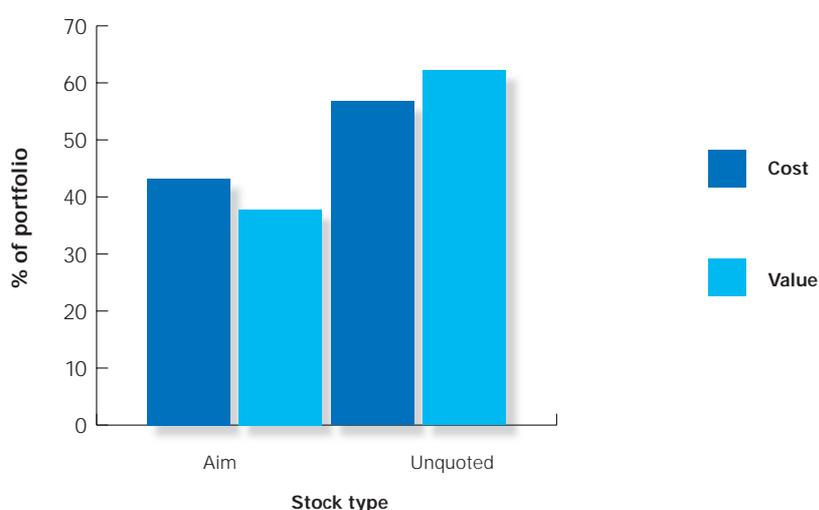
In January 2005, the sale of Ray Engineering Company Limited to an American competitor was completed. The company had encountered great difficulty in securing its markets in the face of the manufacturing decline in the UK. As we had already written down this investment, the sale generated cash and profit of £54,000 after the costs of disposal were taken into account.

# Investment Adviser's Review

## Portfolio Performance

Once again, we are pleased to be able to report strong performance this year from both the quoted and unquoted venture capital investments. The AIM portfolio increased 20% on a like for like basis over the year which was broadly in line with the AIM index itself which also rose strongly during the period.

The unquoted investments delivered nearly 12% growth in value over the year, which was equally spread over the two halves of the year.



## Unquoted Portfolio

The excellent trading performance at Harlands has driven significant value into this part of the portfolio, and drew the attention of an acquisitive competitor. Sale negotiations have proceeded since the year end and resulted in a realisation of this investment on 27 May 2005. Net proceeds of £1.55 million have been received with further amounts due subject to future performance. Cash proceeds received exceed the 31 March 2005 carrying value by £134,000.

The revitalisation of trading at Special Mail Services, due to the recruitment of a new senior management team, has transformed the business and enabled a revaluation of this investment above cost. The initial teething problems with the major UK Passport Service contract, which necessitated depot growth and imposed demanding service levels, have now been overcome and the business is showing strong profitability.

The investment in CCCoutdoors, a retailer of clothing and equipment for outdoor pursuits, has performed well through the year. Of particular note was the opening of a 50,000 sq ft store in Coventry. This store, which is thought to be the largest such outlet in the UK, has traded close to budget since opening and will provide a template for other similar stores across the UK.

The recruitment and city head-hunting firm, International Resources Group, trading as Odgers Ray & Berndtson, enjoyed a resurgence in its market this year and is now regarded as one of the top firms in its sector.

Performance at the relationship agency, The JDA Group, continued in line with expectations. However, at the interim stage of the year we took the opportunity to revise our valuation methodology in line with other companies in the portfolio. This resulted in a slight reduction in the carrying value of this investment.

The corporate clothing management services company, Images at Work has experienced a flat trading year. In spite of this, it has maintained redemptions of preference shares and the slight downwards valuation reflects the volatility we expected when the revised BVCA Guidelines were implemented. The company continues to be courted by the consolidators in this fragmented industry.

# Investment Adviser's Review

Solid performance from Sheet Piling has allowed a slight valuation uplift of £40,000.

A small valuation reduction has been taken for Primal Pictures following a reassessment of the perceived impairment to the valuation at the last reporting date.

The movement in the valuation of Freshroast Coffee arises mainly due to the continued redemption of the loan rather than a significant diminution in shareholder value.

## AIM Portfolio

The AIM portfolio has performed well this year, particularly over the second six month period.

The flotation of Cozart onto the AIM market in July 2004 undoubtedly had a major effect on the overall portfolio growth in the year. Following its initial listing at 30 pence per share, the company's share price steadily rose to 41 pence per share (bid price) at 31 March 2005. On 29 April 2005, the company announced that revenues were below forecasts due to a lower than expected level of drugs abuse testing within the UK's criminal justice sector. The company's share price fell significantly as a result. However, from April 2005, the use of the Cozart RapiScan™ system was extended to an additional 43 police custody suites, and The Drugs Act 2005, which provides new, wider powers to the police including the power to test for Class A drugs, received Royal Assent on 7 April 2005. The company's share price has shown signs of recovery since that date.

Good growth was recorded by Straight, Tikit Group and Bond International Software.

A fall in share price was recorded by Landround after a voucher promotion hit profits. Nevertheless, the steady development of the Buy 'n' Fly brand in the UK and Europe bodes well for the future, even though we report a reduced value over the period. Over the second half of the year your Company's holding in this stock has risen in value by £212,000, although it is still down over the year as a whole.

As commented elsewhere, Connaught has been a reliable constituent of the portfolio and your Company took the opportunity to realise profits as the share price strengthened in the second half.

The performance at dental healthcare service provider, Oasis Healthcare, has been impacted by the shortages of dentists and the poor integration of one of its corporate acquisitions.

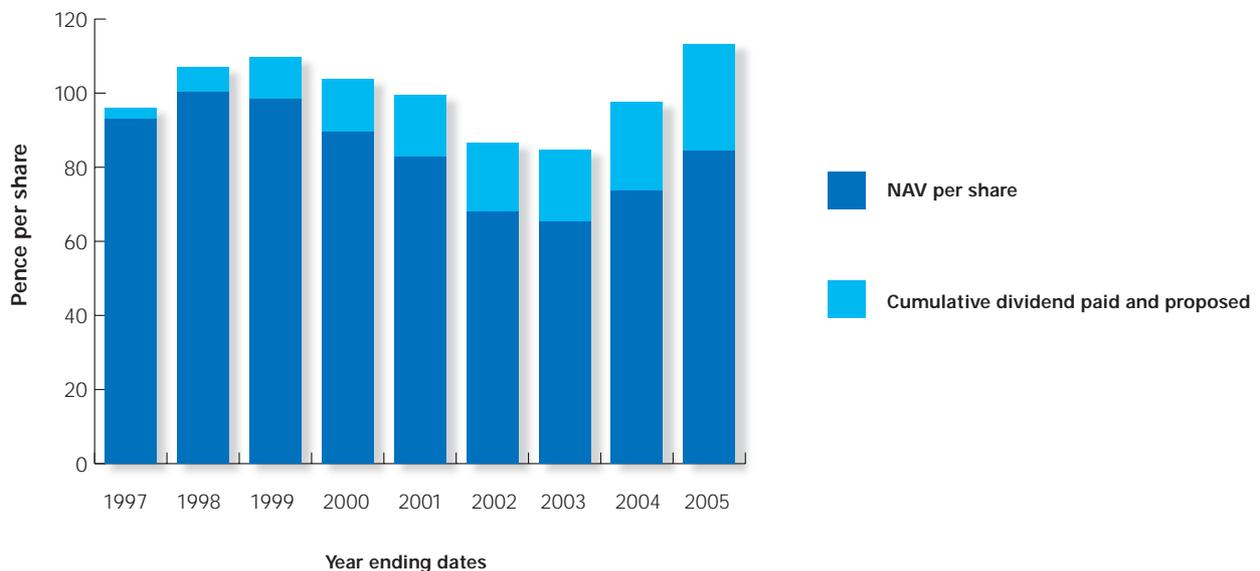
Cash machine operator, Cardpoint, continues to deliver steady growth at the operational level. The acquisition of 816 HBoS cashpoints was a bold stroke and, despite the recent slowdown in converting machines, should enhance earnings when fully operational as a pay-per-use model.

# Investment Adviser's Review

## Performance History

The chart below sets out the aggregate of net asset value of the Company and the cumulative dividend paid and proposed. We believe that the portfolio now contains a number of businesses that have the potential to deliver increasing shareholder value over the coming years. The Company is well positioned to add new high potential investments to broaden and strengthen the portfolio.

The return for those shareholders who invested in the original Issue, now stands above the previous high in 1999 and above the original subscription price of £1 per share. The return is enhanced when the income tax reliefs available to eligible shareholders are taken into account.



## Summary and Outlook

With a fully invested portfolio, the main emphasis, as for a number of years now, has been on working closely with portfolio companies to help them deliver their business plans and so to enhance shareholder value. The efforts of the Investment Adviser in pursuing this policy is becoming evident in the rising net asset value and consistent dividend distributions. On a valuation basis, the increase in net asset value of 21.4% over the year is one manifestation of the results of this policy. In addition, a number of the unquoted portfolio are actively seeking an exit or being pursued by credible buyers. These negotiations, whether early stage or advanced, are all predicated on achieving a higher return to shareholders than the valuation currently held in the portfolio.

David Hall  
Managing Director  
YFM Private Equity Limited  
20 June 2005

# Valuation of Venture Capital Investments

In valuing venture capital investments the directors follow the criteria set out below. These procedures comply with the British Venture Capital Association Valuation Guidelines.

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. In addition, the methodology also represents certain situations where although the one year period has expired, an alternative methodology is not followed because an additional investment has been made by the Company at the same price as the previous investment and an alternative methodology would not result in a better estimate of fair value. The whole investment is also assessed for impairment.
- **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 the return market participants demand to compensate them for the risk they may not be able to sell an asset immediately.
- **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.

In the case of impaired investments, the investee company's circumstances may change so that the directors feel it is appropriate to consider reducing the impairment applied. In these cases the carrying value will be increased to reflect the estimated extent of any write back of previous impairment.

## Quoted Investments

Quoted investments are valued at market price. Where a bid price is available, this is used to determine fair value. Otherwise, mid-market price is used.

## 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 (73)**

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.

## **Philip Simon Cammerman (62)**

He has over 20 years of industrial experience in engineering and hi-tech industries and has worked in both the USA and the UK. He has spent the last 19 years in the venture capital industry and is a director of YFM Private Equity Limited and YFM Group 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 (47)**

He 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 Patsystems plc, an AIM quoted IT software company, British Smaller Technology Companies VCT plc and British Smaller Technology Companies VCT 2 plc and also Tamesis Limited following the investment in this company.

## **Robert Martin Pettigrew (60)**

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.

## **Stephen John Noar (57)**

On 3 May 2005, the Board appointed Stephen Noar as a non-executive director. A dentist by profession, Stephen was the founder chairman and former chief executive of Denplan Limited until its successful trade sale in 1993 following its growth from start up to a turnover in excess of £70m. He was the New Business and Dental Director of PPP Limited (prior to the company's acquisition by Guardian Royal Exchange) responsible for developing dental and other services. In 1994 he was the winner of the Financial Times Venturer of the Year award. He is a non-executive director of British Smaller Technology Companies VCT plc, British Smaller Technology Companies VCT 2 plc and also Cozart plc following the investment in this company.

## **Secretary and Registered Office**

James Ernest Peter Gervasio LL.B.  
Saint Martins House  
210-212 Chapeltown Road  
Leeds  
LS7 4HZ

**Registered No: 3134749**

## For the Year Ended 31 March 2005

The directors present their report and audited accounts of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2005.

## Principal Activity and Business Review

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

The profit and loss account for the year is set out on page 35.

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.

## Results and Dividends

The loss on ordinary activities after taxation for the year amounted to £45,000 (2004: £755,000).

Following the publication of the Company's interim financial results, a 1.5p per Ordinary share interim dividend was paid on 30 November 2004 to shareholders on the register on 12 November 2004.

Following the publication of the Company's third quarter results, a 1.1p per Ordinary share special interim dividend was paid on 28 February 2005 to shareholders on the register on 11 February 2005.

The directors recommend the payment of a final dividend of 2.2p per Ordinary share (2004: 4.8p) which will be paid on 5 August 2005 to Shareholders on the register on 17 June 2005. A resolution to this effect will be proposed at the Annual General Meeting to be held on 26 July 2005.

After recognition of the recommended dividend, the net asset value per Ordinary share at 31 March 2005 was 84.4p (2004: 73.5p) and per C share was 95.0p (2004: nil). The transfer to reserves is given in note 15.

## Issue and Buy-Back of Shares

Following shareholder approval at the Extraordinary General Meeting held on 7 January 2005, the Company's authority to purchase its own Ordinary shares in the market was extended until 6 July 2006.

### Ordinary shares

On 23 July 2004 the Company purchased for cancellation under existing authority granted by the shareholders 7,500 Ordinary shares of 10p each in the market, representing 0.05% of the issued called-up share capital at that date, at a price of 50p per share for cash.

On 6 August 2004 the Company purchased for cancellation under existing authority granted by the shareholders 62,500 Ordinary shares of 10p each in the market, representing 0.41% of the issued called-up share capital at that date, at a price of 56p per share for cash.

On 19 August 2004 the Company purchased for cancellation under existing authority granted by the shareholders 8,000 Ordinary shares of 10p each in the market, representing 0.05% of the issued called-up share capital at that date, at a price of 55p per share for cash.

On 23 August 2004 the Company purchased for cancellation under existing authority granted by the shareholders 25,000 Ordinary shares of 10p each in the market, representing 0.16% of the issued called-up share capital at that date, at a price of 56p per share for cash.

# Directors' Report

On 24 September 2004 the Company purchased for cancellation under existing authority granted by the shareholders 15,000 Ordinary shares of 10p each in the market, representing 0.10% of the issued called-up share capital at that date, at a price of 59p per share for cash.

On 14 February 2005 the Company purchased for cancellation under existing authority granted by the shareholders 150,000 Ordinary shares of 10p each in the market, representing 0.98% of the issued called-up share capital at that date, at a price of 72p per share for cash.

On 22 March 2005 the Company purchased for cancellation under existing authority granted by the shareholders 50,000 Ordinary shares of 10p each in the market, representing 0.33% of the issued called-up share capital at that date, at a price of 72p per share for cash.

## C shares

During the year the Company issued 249,575 C shares and raised net proceeds of £237,096. Since the year end the Company has made a further issue of 996,901 C shares for net proceeds of £971,947.

## Substantial Shareholdings

YFM Group Limited, the parent company of YFM Private Equity Limited, which acts as the Investment Adviser and performs administrative and secretarial services to the Company, held 3.5% (2004: 3.4%) of the total issued Ordinary 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 terms. Further details are given in note 12.

## Directors and their Interests

The Company has undertaken some restructuring of the Board during the year in order to bring it more in line with the standard for the VCT industry.

On 20 October 2004, J J Seed retired as a non-executive director.

On 22 October 2004, C W Leach retired as a non-executive director.

On 24 October 2004, R Lindemann retired as a non-executive director.

On 31 October 2004, C J Brown retired as a non-executive director.

On 3 May 2005, S Noar was appointed by the Board as a non-executive director.

The directors of the Company at 31 March 2005, their interest and contracts of significance, are set out in the Directors' Remuneration Report on pages 30 to 32.

## 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 under the instruction of the Investment Adviser to ensure legislative requirements are properly assessed.

## Post Balance Sheet Events

Significant events, including venture capital investments made following the year-end, are set out in note 23 to the financial statements.

## Fixed Assets

Movements on investments held as fixed assets are shown in notes 8 and 9.

## Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 54 of these financial statements.

## Independent Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as independent auditors, will be put to the shareholders at the Annual General Meeting.

## 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.yfmprivateequity.co.uk](http://www.yfmprivateequity.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.

# Directors' Report

## 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 2003 FRC Combined Code published in July 2003 (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 July 2003, except for those provisions relating to the appointment of a recognised senior independent non-executive director, those relating to the establishment of an independent Remuneration or Nomination Committee, the Chairman acting as chairman of the Audit Committee, and therefore the presumption concerning his independence and the independence of the Chairman and the other directors who have now served for more than 9 years (see below).

### Role of the Board

A management agreement between the Company and YFM Private Equity Limited sets out the matters over which the Investment Adviser has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration, and some marketing services. All other matters are reserved for approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved during the year. This includes determination and monitoring of the Company's objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board meets at least five times during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board by the Investment Adviser to enable it to function effectively and to allow directors to discharge their responsibilities.

There is an agreed procedure for directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every director has to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed. The Company indemnifies its directors and officers and has purchased insurance to cover its directors. Neither the insurance nor the indemnity provide cover if the director has acted fraudulently or dishonestly.

### Board Composition

The Board currently consists of five non-executive directors, two of whom are regarded by the Combined Code as independent and four of whom are regarded by the Board as independent of the Company's Investment Adviser, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although the Combined Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in this Company, and taking account of the Chairman's role within other venture capital trusts to which YFM Private Equity Limited is the Investment Adviser, are satisfied that Sir Andrew Hugh Smith continues to fulfill the criteria for independence as non-executive director. The directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 20.

Although the Combined Code presumes Sir Andrew Hugh Smith, Mr P Cammerman and Mr R Last not to be independent by virtue of them having held office for over 9 years, the remaining directors, having considered the nature of their roles in the Company and their roles within other venture capital trusts to which YFM Private Equity Limited is the Investment Adviser, are satisfied that they continue to fulfill the criteria for independence as non executive directors. Consequently Sir Andrew Hugh Smith, Mr P Cammerman and Mr R Last will be subject to annual re-election at the Annual General Meeting in accordance with the Combined Code.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which are given below. There are no executive directors or officers of the Company. Given the structure of the Board and the fact that the Company's administration is conducted by YFM Private Equity Limited, the Board does not consider it necessary or appropriate to appoint a chief executive officer or a senior independent non-executive director. In addition, the directors consider that the role of a senior independent non-executive director is taken on by all of the directors. Shareholders are therefore able to approach any director with any queries they may have.

## Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, the director's appointment will run for an initial term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirement of the Combined Code, including the need to refresh the Board and its Committees. Any director who has served for a period of more than nine years will stand for annual re-election thereafter.

The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting.

The directors recommend the re-election of Sir Andrew Hugh Smith, Mr P Cammerman and Mr R Last, all of whom retire by rotation by virtue of serving for more than 9 years, the re-election of Mr R Pettigrew who retires by rotation, and the election of Mr S Noar who retires by virtue of being appointed since the last AGM. The Board recommends the re-election of these directors at this year's AGM, because of their commitment, experience and contribution to the Company.

## Meetings and Committees

The Board delegates certain responsibilities and functions to committees. Directors who are not members of committees may attend at the invitation of the Chairman.

The table below details the number of Board and Audit committee meetings attended by each director. During the year there were 6 formal Board meetings and 2 Audit Committee meetings. The directors met via telephone conference on 14 other occasions.

Director	Board meetings attended	Audit Committee meetings attended
Sir Andrew Hugh Smith	6	2
C J Brown	3	1
P S Cammerman	6	n/a
R Last	6	2
C W Leach	2	1
R Lindemann	2	1
R M Pettigrew	5	2
J J Seed	2	1

## Training and Appraisal

On appointment, the Investment Adviser and Company Secretary provide all directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and directors. Directors are encouraged to attend industry, and other, seminars covering issues and developments relevant to venture capital trusts.

# Directors' Report

The performance of the Board has been evaluated in respect of the current financial year. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively. The factors taken into account were based on the relevant provisions of the Combined Code and included attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution. Particular attention is paid to those directors who are due for reappointment. The results of the overall evaluation process are communicated to the Board. Performance evaluation will be conducted on an annual basis.

An independent director has similarly appraised the performance of the Chairman, taking account of the views of the directors. He considered that the Chairman's performance continues to be effective and that he continues to demonstrate a commitment to the role. The Chairman has confirmed that the performance of the directors being proposed for re-election continues to be effective and that each of them continues to show commitment to the role.

## Nomination Committee and Remuneration Committee

Due to the size of the Board and the appointment and remuneration procedures currently in place, it is the directors' opinion that there is no role for an Independent Remuneration or Nomination Committee. The Directors' Remuneration Report may be found on pages 30 to 32. Any proposed appointment to the Board is a matter for the whole Board.

Mr Stephen Noar who joined the Board in May 2005 brings to the Board considerable commercial and investment experience and, in particular, venture capital trust experience as a director of two other venture capital trusts, British Smaller Technology Companies VCT plc and British Smaller Technology Companies VCT 2 plc, through which he is well known to the directors. In attending Board meetings of the Company as an observer and in meetings with the directors prior to his appointment he received a detailed introduction to the business and affairs of the Company. In selecting Mr Noar as a non-executive director, the directors were able to rely on their knowledge of his considerable contribution to his work on the other Boards referred to above and accordingly did not consider it appropriate to advertise the appointment or use external search agencies. Mr Noar did not hold any Ordinary or C shares at the date of his appointment.

## Audit Committee

Established on 2 May 1997, the Audit Committee currently consists of the directors who are independent of the Investment Adviser, being Sir Andrew Hugh Smith, R Last, S Noar and R M Pettigrew, and meets at least twice each year. The directors consider that it is appropriate that the Chairman of the Committee should be Sir Andrew Hugh Smith. The members of the Committee consider that they have the requisite skills and experience to fulfill the responsibilities of the Committee.

The Audit Committee reviews the actions and judgments of management in relation to the interim and annual financial statements and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Investment Adviser's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. Representatives of the Company's auditors attend the Committee meeting at which the draft Annual Report and financial statements are considered. The directors' statement on the Company's system of internal control is set out below.

The Audit Committee consider independence and objectivity of the auditors on an annual basis in light of the provision of any non-audit service provided to the Company in the year. The Audit Committee consider that given the low level of non-audit services provided in the year to 31 March 2005, the independence and objectivity of the auditors has not been impaired or compromised.

The Audit Committee has written terms of reference which clearly define its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the AGM.

## Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance, and reports formally to shareholders twice a year by way of the Annual Report and the Interim Report. This is supplemented by the quarterly publication, through the London Stock Exchange, of the net asset value of the Company, and the daily publication of the Company's share price.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Investment Adviser are available in person to meet with and answer shareholders' questions. During the year the Company's Investment Adviser held discussions with shareholders through regular VCT workshop presentations. These, typically, covered the performance of the Company, an update on the current portfolio (including presentations from investee businesses) and a review of general VCT industry developments. The directors are made fully aware of shareholders' views and the Chairman and directors make themselves available, as and when required, to address their queries. The directors may be contacted through the Company Secretary whose details are shown on page 20.

The Company's Annual Report is published in time to give shareholders at least 20 working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 20. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against for each resolution.

## Internal Control

Under an agreement dated 28 February 1996, the executive functions of the Company are sub-contracted to YFM Private Equity 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 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.
- 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.

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 2005 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.

# Directors' Report

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 twice a year. 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 directors have reviewed the effectiveness of the Company's systems of internal control 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.

## Corporate Governance and Voting Policy

The Company delegates responsibility for monitoring its investments to YFM Private Equity Limited whose policy, which has been noted by the Board, is as follows:

YFM Private Equity Limited is committed to introducing corporate governance standards into the companies in which its clients invest. With this in mind, the Company's investment agreements contain contractual terms specifying the required frequency of management Board meetings and of annual shareholders' meetings, and for representation at such meetings through YFM Private Equity Limited. In addition, provision is made for the preparation of regular and timely management information to facilitate the monitoring of investee company performance in accordance with the best practice in the private equity sector.

## 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.

## 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, YFM Private Equity 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 YFM Private Equity 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 YFM Private Equity Limited, the portfolio is managed by Brewin Dolphin Securities Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio. 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, a summary of which is set out on pages 18 and 19 of this report. Investments in fixed interest Government securities are valued at their current cost which equates to market value as at the balance sheet date. To this end, the directors consider that the carrying value of the portfolio at 31 March 2005 and 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 premium repayment.

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

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

Details of financial assets held at 31 March 2005 can be found in the Investment Adviser's Review and notes 9 and 10 to these Financial Statements.

### By order of the board

J E P Gervasio  
Company Secretary  
20 June 2005

# Directors' Remuneration Report

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

## Directors and their Interests

The directors of the Company at 31 March 2005 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 2005	Number of C Shares at 31 March 2005	Number of Ordinary shares at 31 March 2004
Sir Andrew Hugh Smith	30,000	–	30,000
P S Cammerman	15,000	–	15,000
R Last	15,000	–	15,000
R M Pettigrew	17,500	–	–
S Noar (at date of appointment)	–	–	–

None of the directors have subscribed for further Ordinary shares since the year end. Subscriptions made for C shares since the year end are as follows:

	Number of C Shares
Sir Andrew Hugh Smith	10,000
P S Cammerman	5,000
R Last	10,000
R M Pettigrew	5,000
S Noar	–

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

Brief biographical notes on the directors are given on page 20. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below, and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not generally offer compensation for loss of office when a director leaves. However, due to the significant restructuring that has taken place during the year, the Board considered it appropriate to make ex-gratia payments to the retiring directors.

The Company has no employees in either year.

## Administration

YFM Private Equity 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. YFM Private Equity Limited is authorised and regulated by the Financial Services Authority. Mr Cammerman is a director of YFM Private Equity Limited and has a beneficial shareholding interest in its ultimate parent company Yorkshire Enterprise Group (Holdings) Limited.

Under the Subscription Rights Agreement dated 28 February 1996, YFM Private Equity 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 YFM Private Equity Limited in either year under this incentive agreement.

# Directors' Remuneration Report

By a Deed of Assignment dated 19 December 2003, the benefit of the subscription right was assigned to YFM Private Equity Limited Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Mr Cammerman is one of the beneficiaries of that Trust.

## Basic Remuneration

Total directors' remuneration for the year amounted to £74,999 (2004: £75,000) of which £63,334 (2004: £55,000) was paid to seven individuals for services as directors and £11,666 (2004: £20,000) was paid to third parties in respect of directors' services.

The total remuneration paid in respect of individual directors who served during the year were as follows:

	Compensation			
	Fees	for loss of office*	Total	
	2005	2005	2005	2004
	£	£	£	£
Sir Andrew Hugh Smith	15,000	–	15,000	15,000
C J Brown (retired 31 October 2004)	5,000	5,833	10,833	10,000
P S Cammerman	–	–	–	–
R Last	10,000	–	10,000	10,000
C W Leach (retired 22 October 2004)	5,000	2,500	7,500	10,000
R Lindemann (retired 24 October 2004)	5,000	5,833	10,833	10,000
R M Pettigrew	10,000	–	10,000	10,000
J J Seed (retired 20 October 2004)	5,000	5,833	10,833	10,000

\* includes ex-gratia payments

There are no executive directors (2004: none). Mr Cammerman, who is a director of the Company's Investment Adviser, receives no fees for his services as director of the Company. None of Mr Cammerman's remuneration from YFM Private Equity 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.

In order to reduce its size and alter its composition to be more in line with the VCT industry standard, the Board has been restructured.

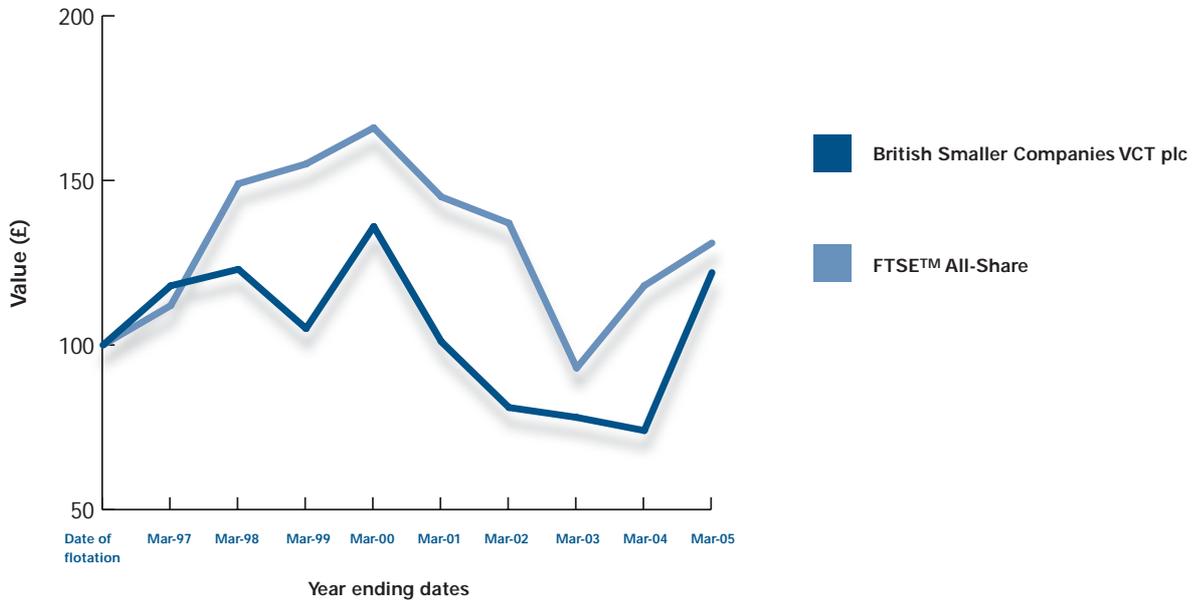
The 'Basic Remuneration' section is the only part of the Director's Remuneration Report subject to audit. All of the remaining sections are not subject to audit.

## Performance Graph

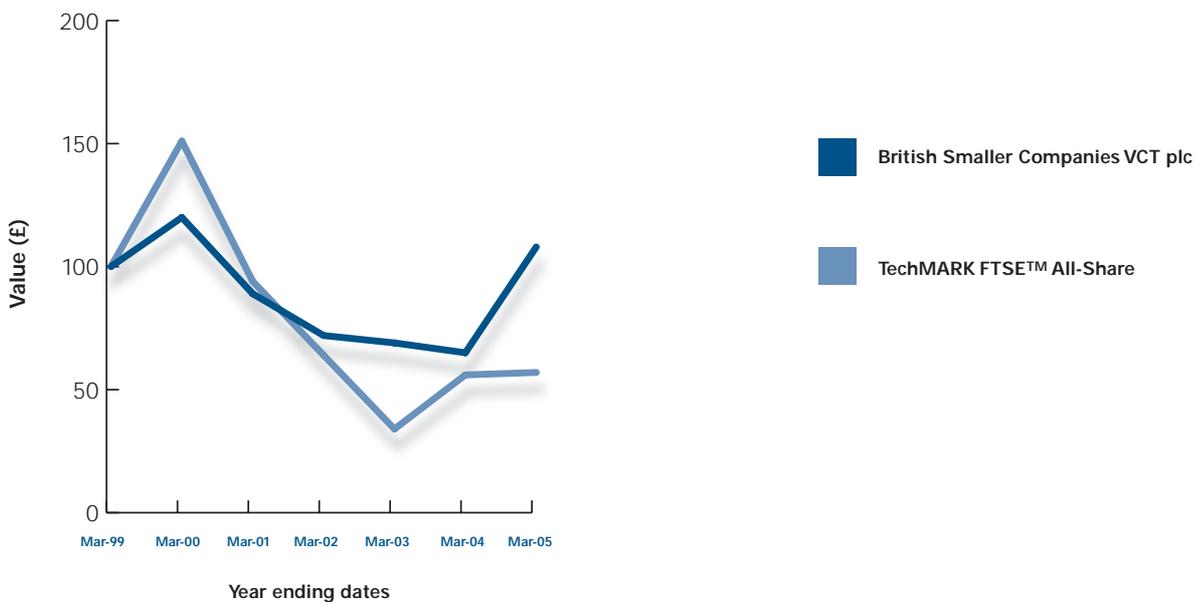
The graph below shows a comparison between the Company's total shareholder return compared with the companies in the FTSE™ All-Share Index from the date of flotation to 31 March 2005. The return from the Company is based on a shareholder receiving basic tax relief on his or her investment at the initial outset of the Company but ignores any capital gains rollover relief. The graph looks at the value, by the end of March 2005, 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 invariably in relatively early stage unquoted companies.

# Directors' Remuneration Report

## Performance Graph



Given the Board's intention to invest in a balanced portfolio across a range of industry sectors, particularly in recent years encompassing 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.



Signed on behalf of the Board

Sir Andrew Hugh Smith  
Chairman  
20 June 2005

# 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 Adviser's Review, the Directors' Report including the corporate governance statement, the unaudited part of the Directors' Remuneration Report and the other items included in the Contents section.

We review whether the statement of corporate governance reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

## Basis of Audit Opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Remuneration Report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the Directors' Remuneration Report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# Independent Auditors' Report

## 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

20 June 2005

# Profit and Loss Account

For the year ended 31 March 2005

	Notes	2005 £000	2004 £000
Income	2	396	364
Administrative expenses:			
Investment advisory fee	3	(272)	(250)
Other expenses	3	(262)	(214)
		(534)	(464)
Gain on realisation of investments	8	229	111
Impairment of investments	8	(136)	(766)
<b>Loss on ordinary activities before taxation</b>		<b>(45)</b>	<b>(755)</b>
Tax on loss on ordinary activities	4	-	-
<b>Loss for the financial year</b>		<b>(45)</b>	<b>(755)</b>
Dividends	5	(732)	(741)
<b>Sustained loss for the year</b>	15,16	<b>(777)</b>	<b>(1,496)</b>
Basic and diluted loss per Ordinary share	6	<b>(0.29)p</b>	(4.88)p

All activity has arisen from continuing operations. There was no income or expenditure in the year in respect of the C shares. Consequently the above results relate only to the Ordinary shares.

The accompanying notes are an integral part of this statement.

## Statement of Total Recognised Gains and Losses

	Notes	2005 £000	2004 £000
Loss for the financial year		(45)	(755)
Unrealised gain on valuation of investments	8,15	2,392	2,746
<b>Total recognised gains for the year</b>		<b>2,347</b>	<b>1,991</b>
Total recognised gains per Ordinary share	7	<b>15.30p</b>	12.87p

## Note of Historical Cost Profits and Losses

	Notes	2005 £000	2004 £000
Loss for the financial year		(45)	(755)
Realisation of investment gains (losses) of previous years	15, 16	315	(194)
Historical cost profit (loss) on ordinary activities before taxation		270	(949)
<b>Historical cost loss for the year after taxation and dividends</b>		<b>(462)</b>	<b>(1,690)</b>

# Balance Sheet

At 31 March 2005

	Notes	Ordinary Shares 2005 £000	C Shares 2005 £000	Total 2005 £000	Ordinary Shares 2004 £000
<b>Fixed Assets</b>					
Investments	8.9	11,045	-	11,045	9,216
<b>Current Assets</b>					
Debtors	11	160	-	160	101
Investments	8.9	1,656	-	1,656	2,656
Cash		314	246	560	184
		2,130	246	2,376	2,941
Creditors: amounts payable within one year	12	(418)	(9)	(427)	(805)
<b>Net Current Assets</b>		<b>1,712</b>	<b>237</b>	<b>1,949</b>	2,136
<b>Total Net Assets</b>		<b>12,757</b>	<b>237</b>	<b>12,994</b>	11,352
<b>Capital and Reserves</b>					
Called-up share capital	14	1,512	125	1,637	1,544
Share premium account	15	-	112	112	-
Capital redemption reserve	15	75	-	75	43
Revaluation reserve	15	7,116	-	7,116	5,039
Special reserve	15	3,661	-	3,661	3,871
Profit and loss account	15	393	-	393	855
<b>Equity shareholders' funds</b>	16	<b>12,757</b>	<b>237</b>	<b>12,994</b>	11,352
<b>Net asset value per share</b>	17	<b>84.4p</b>	<b>95.0p</b>	<b>84.6p</b>	73.5p

Signed on behalf of the Board

**Sir Andrew Hugh Smith**

**Director**

**20 June 2005**

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

# Cash Flow Statement

For the year ended 31 March 2005

	Notes	Ordinary Shares 2005 £000	C Shares 2005 £000	Total 2005 £000	Ordinary Shares 2004 £000
<b>Net cash outflow from operating activities</b>	18	(212)	-	(212)	(58)
<b>Investing activities</b>					
Purchase of fixed asset investments		(401)	-	(401)	(858)
Proceeds from disposal of fixed asset investments		1,107	-	1,107	2,159
<b>Net cash inflow from investing activities</b>		706	-	706	1,301
<b>Equity dividends paid to shareholders</b>		(1,140)	-	(1,140)	(93)
<b>Net cash (outflow) inflow before management of liquid resources and financing</b>		(646)	-	(646)	1,150
<b>Management of liquid resources</b>					
Purchase of fixed interest Government stocks	8	(106)	-	(106)	(2,733)
Proceeds from the sale of fixed interest Government stocks	8	1,056	-	1,056	1,485
<b>Net cash inflow (outflow) from management of liquid resources</b>	20	950	-	950	(1,248)
<b>Financing</b>					
Purchase of own Ordinary shares		(174)	-	(174)	(35)
Issue of C shares		-	250	250	-
Costs of C share issue		-	(4)	(4)	-
<b>Net cash inflow (outflow) from financing</b>		(174)	246	72	(35)
<b>Increase (decrease) in cash in the year</b>	19, 20	130	246	376	(133)

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

# Notes to the Financial Statements

For the year ended 31 March 2005

## 1. Principal Accounting Policies

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

### 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.

The results of the Company set out on page 35 have been prepared in accordance with the requirements of Schedule IV of the Companies Act 1985 because the Company is not an investment company under Section 266 of the Companies Act 1985.

### 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 18 and 19 of this report.

Quoted investments are valued at market bid prices, or middle market prices where the bid price is not readily available. 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.

When the Company revalues its investments during the year, any unrealised gains or losses above historical cost are credited/charged to the revaluation reserve, whilst any gains or losses below historical cost are taken immediately 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.

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 represent investments in associated undertakings.

# Notes to the Financial Statements

## 1. Principal Accounting Policies (cont.)

### 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

	2005 £000	2004 £000
Income from investments:		
Dividends from unquoted companies	148	125
Dividends from AIM quoted companies	27	26
Interest on loans to unquoted companies	72	62
Fixed interest Government securities	135	131
Interest on deposits	14	20
	<b>396</b>	<b>364</b>

## 3. Administrative Expenses

	2005 £000	2004 £000
Investment advisory fee (including irrecoverable VAT)	272	250
Other expenses:		
Administration fee (including irrecoverable VAT)	50	49
Directors' remuneration	75	75
Auditors' remuneration:		
- audit fees	21	13
- non-audit services	9	10
General expenses	107	67
	<b>262</b>	<b>214</b>
	<b>534</b>	<b>464</b>

Audit fees for the year ended 31 March 2005 include an amount of £6,000 relating to an under accrual in respect of the prior year.

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 (2004: £3,000) and £6,000 (2004: £7,000) respectively.

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

# Notes to the Financial Statements

## 3. Administrative Expenses (cont.)

The key features of the agreement are:

- YFM Private Equity 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 YFM Private Equity 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 YFM Private Equity Limited in the year (including VAT) was £322,000 (2004: £299,000).

## 4. Tax on Loss on Ordinary Activities

	2005 £000	2004 £000
Corporation tax payable at 19% (2004: 19%)	-	-
Loss on ordinary activities before taxation	(45)	(755)
Loss on ordinary activities multiplied by standard small company rate of corporation tax in UK of 19% (2004: 19%)	(9)	(143)
<b>Effect of:</b>		
UK dividends received (i)	(33)	(29)
Non taxable (profits) losses on investments (i)	(17)	124
Excess management expenses (ii)	59	48
Tax on loss on Ordinary activities	-	-

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

(ii) The company has no deferred tax liability.

Deferred tax assets of £204,000 (2004: £145,000) in respect of unrelieved management expenses have not been recognised as the directors 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 or losses on the revaluation or disposal of investments.

## 5. Dividends

	2005 £000	2004 £000
Interim paid - 1.5p per Ordinary share (2004: nil)	230	-
Special interim dividend paid - 1.1p per Ordinary share (2004: nil)	169	-
Final proposed - 2.2p per Ordinary share (2004: 4.8p)	333	741
	<b>732</b>	<b>741</b>

# Notes to the Financial Statements

## 6. Loss per Ordinary Share

The loss per Ordinary share is based on a loss on ordinary activities after tax of £45,000 (2004: £755,000) and 15,343,000 (2004: 15,457,000) shares being the weighted average number of Ordinary shares in issue during the year.

Under FRS 14 'Earnings per share' any potentially dilutive shares are deemed anti-dilutive in the event that a loss has been incurred. Consequently, the basic and diluted loss per Ordinary share for the year ended 31 March 2005 and 2004 are the same.

## 7. Total Recognised Gains per Ordinary Share

The total recognised gains per Ordinary share is based on total recognised gains for the year of £2,347,000 (2004: £1,991,000) and 15,343,000 (2004: 15,435,838) shares, being the weighted average number of Ordinary shares in issue during the year.

## 8. Investment Portfolio

	Unquoted Investments	AIM Quoted Investments	Total Fixed Asset Investments	Fixed Income Securities	Total Investments
	£000	£000	£000	£000	£000
Opening cost	6,849	2,744	9,593	2,722	12,315
Opening unrealised (loss) gain	(950)	573	(377)	(66)	(443)
Opening valuation	5,899	3,317	9,216	2,656	11,872
Additions at cost	–	401	401	106	507
Disposal proceeds	(375)	(732)	(1,107)	(1,056)	(2,163)
Realised gains (losses) on disposal	9	227	236	(7)	229
Unrealised gain (losses) in the year	1,335	964	2,299	(43)	2,256
	<b>6,868</b>	<b>4,177</b>	<b>11,045</b>	<b>1,656</b>	<b>12,701</b>
Closing cost	5,894	2,746	8,640	1,738	10,378
Closing unrealised gain (loss)	974	1,431	2,405	(82)	2,323
<b>Closing valuation</b>	<b>6,868</b>	<b>4,177</b>	<b>11,045</b>	<b>1,656</b>	<b>12,701</b>

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 £2,256,000 (2004: £1,980,000) consists of an unrealised gain of £2,392,000 (2004: £2,746,000) which is reflected in the revaluation reserve and an impairment of £136,000 (2004: £766,000) reflected in the profit and loss account.

# Notes to the Financial Statements

## 9. Investments

The cost and carrying value of investments held at 31 March 2005, which are all attributable to the Company's Ordinary shares, all of which are registered in England and Wales except where noted, are detailed below. No investments or disposals were made in the year or held at 31 March 2005 in respect of the C shares.

Venture capital investments	2005			2004		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
<b>Baynflax Limited</b>						
(In Administrative Receivership)						
'B' Ordinary shares of £1 each	100	-		100	-	
12% Debenture loan	400	-		400	-	
	<b>500</b>	<b>-</b>	<b>-</b>	<b>500</b>	<b>-</b>	<b>-</b>
<b>Cambridge Cognition Limited</b>						
Ordinary shares of £1 each	325	81	0.6	325	81	0.7
<b>CCCoutdoors Limited</b>						
'A' Ordinary shares of £1 each	155	1,642	12.6	155	1,343	11.8
<b>Denison Mayes Group Limited</b>						
15% Debenture loan	100	-	-	100	-	-
<b>Eagle Marketing Limited</b>						
(In Administrative Receivership)						
Ordinary shares of £1 each	200	-		200	-	
10% Cumulative Redeemable Preference shares of £1 each	800	-		800	-	
	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>1,000</b>	<b>-</b>	<b>-</b>
<b>Freshroast Coffee Co. Limited</b>						
Ordinary shares of £1 each	5	6		5	11	
Debenture loan (4% over bank base rate)	15	15		40	40	
	<b>20</b>	<b>21</b>	<b>0.2</b>	<b>45</b>	<b>51</b>	<b>0.4</b>
<b>Harlands of Hull Limited</b>						
'B' Ordinary shares of £1 each	50	967		50	50	
Cumulative Redeemable Preference shares of £1 each	300	300		300	300	
Convertible Unsecured loan stock	150	150		150	150	
	<b>500</b>	<b>1,417</b>	<b>10.9</b>	<b>500</b>	<b>500</b>	<b>4.4</b>
<b>Images at Work Limited</b>						
Ordinary Shares of £1 each	205	337		205	427	
10.5% Cumulative Redeemable Preference Shares of £1 each	140	140		246	246	
	<b>345</b>	<b>477</b>	<b>3.7</b>	<b>451</b>	<b>673</b>	<b>5.9</b>

# Notes to the Financial Statements

## 9. Investments (cont.)

Venture capital investments	2005			2004		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
<b>Imerge Limited</b>						
'A' Ordinary shares of 1p each	418	-		250	-	
0% Convertible Unsecured Loan Stock	-	-		168	-	
	<b>418</b>	<b>-</b>	<b>-</b>	<b>418</b>	<b>-</b>	<b>-</b>
<b>International Resources Group Limited</b>						
Ordinary shares of 1p each	47	820	6.3	47	677	6.0
<b>The JDA Group Limited</b>						
Ordinary shares	30	496	3.8	30	621	5.5
<b>Morgan Machine Knife Limited</b> (In Administrative Receivership)						
Ordinary shares of £1 each	90	-		90	-	
10% 'A' Cumulative Redeemable Preference shares of £1 each	228	-		228	-	
	<b>318</b>	<b>-</b>	<b>-</b>	<b>318</b>	<b>-</b>	<b>-</b>
<b>Primal Pictures Limited</b>						
Ordinary shares of 50p each	400	205		400	220	
10% Cumulative Redeemable Preference Shares of £1 each	100	100		100	100	
	<b>500</b>	<b>305</b>	<b>2.4</b>	<b>500</b>	<b>320</b>	<b>2.8</b>
<b>Ray Engineering Company Limited</b>						
Ordinary shares of £1 each	-	-		82	-	
10.5% Cumulative Redeemable Preference shares of £1 each	-	-		453	-	
	<b>-</b>	<b>-</b>	<b>-</b>	<b>535</b>	<b>-</b>	<b>-</b>
<b>RMF Engineering Limited</b>						
Ordinary shares of £1 each	90	-		90	86	0.8
<b>Sheet Piling (UK) Limited</b>						
'B' Ordinary shares of £1 each	110	849		110	808	
12% Debenture loan	195	195		195	195	
	<b>305</b>	<b>1,044</b>	<b>8.0</b>	<b>305</b>	<b>1,003</b>	<b>8.8</b>

# Notes to the Financial Statements

## 9. Investments (cont.)

Venture capital investments	2005			2004		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
<b>Special Mail Services Limited</b>						
'A' Ordinary shares of 10p each	43	217		35	-	
Preferred Ordinary shares of 10p each	30	30		30	-	
Variable rate unsecured loan stock	318	318		352	249	
	<b>391</b>	<b>565</b>	<b>4.4</b>	417	249	2.2
<b>Tamesis Limited</b>						
Ordinary shares of 0.04p each	350	-	-	350	87	0.8
<b>Voxar Limited</b> <i>(Registered in Scotland)</i>						
'B' Ordinary shares of 20p each	-	-		250	195	
Convertible Unsecured Loan Stock	-	-		13	13	
	-	-	-	263	208	1.8
<b>Weston Antennas Limited</b>						
'A' Ordinary shares of £1 each	300	-		300	-	
9% Cumulative Redeemable Preference shares of £1 each	200	-		200	-	
	<b>500</b>	-	-	500	-	-
<b>Total excluding AIM quoted investments</b>	<b>5,894</b>	<b>6,868</b>	<b>52.9</b>	6,849	5,899	51.9
<b>Ordinary shares held in AIM quoted companies</b>						
Bond International Software plc	53	78	0.6	53	31	0.3
Cardpoint plc	119	306	2.4	119	335	2.9
Connaught plc	108	428	3.3	162	494	4.4
Cozart plc	500	1,772	13.6	500	1,109	9.8
First Artist Corporation plc	300	37	0.3	300	22	0.2
Landround plc	283	499	3.8	283	561	4.9
Oasis Healthcare plc	392	119	0.9	392	219	1.9
SBS Group plc (In Receivership)	100	-	-	100	-	-
Spring Grove Property Maintenance plc	-	-	-	80	66	0.6
Straight plc	301	574	4.4	165	202	1.8
Tikit Group plc	225	354	2.7	225	260	2.3
Warthog plc	365	10	0.1	365	18	0.2
Total AIM quoted investments	<b>2,746</b>	<b>4,177</b>	<b>32.1</b>	2,744	3,317	29.3
Total venture capital investments portfolio	<b>8,640</b>	<b>11,045</b>	<b>85.0</b>	9,593	9,216	81.2

# Notes to the Financial Statements

## 9. Investments (cont.)

	2005			2004		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
<b>Government stocks</b>						
6.75% Treasury stock 2004	–	–	–	983	955	8.4
9.5% Conversion stock 2005	989	902	6.9	989	947	8.3
4% Treasury stock 2009	749	754	5.8	750	754	6.7
Total investment in Government stocks	1,738	1,656	12.7	2,722	2,656	23.4
Total financial asset investments	10,378	12,701	97.7	12,315	11,872	104.6
Cash		560	4.3		184	1.6
Other net current liabilities		(267)	(2.0)		(704)	(6.2)
Shareholders' funds		12,994	100.0		11,352	100.0

## Significant Interests

At 31 March 2005 the Company held a significant holding of at least 20% of the issued Ordinary share capital, either individually or alongside commonly managed funds, in the following companies, all of which are registered in England and Wales:

Company and principal activity	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Freshroast Coffee Co Limited (processes, packages and markets coffee, tea and related vending ingredients)	5,271 Ordinary	13%	13%
RMF Engineering Limited (design and fabrication from specialist metals)	40,000 Ordinary	25%	–
CCCoutdoors Limited (retailer of outdoor clothing and accessories)	35,992 Ordinary	23%	–
Images at Work Limited (supplies and manages corporate clothing contracts)	75,000 Ordinary 140,000 Preference	33% 100%	– –
Sheet Piling (UK) Limited (specialist civil engineering service)	32,659 Ordinary	36%	–
Primal Pictures Limited (production of anatomical CD ROMs)	430,320 Ordinary 300,000 Preference	4% 13%	17% 26%
Cambridge Cognition Limited (a cognitive test development company)	415,744 Ordinary	12%	9%
Harlands of Hull Limited (a manufacturer of self-adhesive labels)	50,000 Ordinary 300,000 Preference	23% 33%	11% 17%

# Notes to the Financial Statements

## 9. Investments (cont.)

Commonly managed funds refer to those funds also under the management of YFM Private Equity Limited, the Investment Adviser to the Company, or YFM Venture Finance Limited, a wholly owned subsidiary of YFM Group Limited, the parent company of YFM Private Equity Limited, both on a discretionary and a non-discretionary basis.

The YFM Group, through its two regulated companies, YFM Private Equity Limited and YFM Venture Finance Limited, acts as Investment Adviser or Investment Manager 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, the Yorkshire Fund Limited Partnership, the Yorkshire & Humber Equity Fund Limited Partnership and Yorkshire Enterprise Finance Limited, which have also invested in some of the companies within the current portfolio of this Company.

Details of these investments are summarised below. The amounts shown below are the investments made at cost as at 31 March 2005.

	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	Yorkshire & Humber Equity Fund LP £000	Yorkshire Enterprise Finance Limited £000	Total £000
Cambridge Cognition Limited	-	240	-	-	-	-	240
Cozart plc	500	394	-	-	-	-	894
Freshroast Coffee Co. Limited	-	-	-	20	-	-	20
Imerge Limited	835	-	-	-	-	-	835
Primal Pictures Limited	1,000	-	-	-	-	195	1,195
Special Mail Services Limited	-	-	1,869	-	-	-	1,869
Harlands of Hull Limited	-	-	-	-	250	-	250
Tamesis Limited	350	150	325	-	-	-	825

## 10. 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.

# Notes to the Financial Statements

## 10. Financial Instruments (cont.)

At 31 March 2005 and 31 March 2004, the financial assets, by value, excluding short term-trade debtors and creditors as permitted by FRS 13, comprised:

	2005		2004	
	£000	%	£000	%
<b>Venture capital investments</b>				
Ordinary shares	9,923	74.8	7,923	65.7
Fixed Interest Preference shares	540	4.1	646	5.4
Debenture loan stock	582	4.4	647	5.4
	<b>11,045</b>	<b>83.3</b>	9,216	76.5
Fixed Interest Government stocks	1,656	12.5	2,656	22.0
Cash	560	4.2	184	1.5
	<b>13,261</b>	<b>100.0</b>	12,056	100.0

At 31 March 2005 and 31 March 2004, the financial assets, by value, excluding (as permitted by FRS 13) short-term trade debtors, and the analysis by interest rate risk, comprised:

	2005		2004	
	£000	%	£000	%
<b>Venture capital investments</b>				
Fixed interest investment assets	885	6.7	1,004	8.4
Floating rate investment assets	237	1.8	289	2.4
Ordinary shares	9,923	74.8	7,923	65.7
	<b>11,045</b>	<b>83.3</b>	9,216	76.5
Fixed Interest Government stocks	1,656	12.5	2,656	22.0
Cash on floating rate deposit	560	4.2	184	1.5
	<b>13,261</b>	<b>100.0</b>	12,056	100.0

The weighted average interest rate on fixed rate financial assets in venture capital investments held at 31 March 2005 was 8.2% (2004: 8.4%) The weighted average period for which these rates applied was 1 year, 8 months (2004: 2 years, 6 months). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 7.3% (2004: 7.2%) with a weighted average period of 7 months (2004: 1 year).

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

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

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

# Notes to the Financial Statements

## 10. Financial Instruments (cont.)

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.

During the year, the Company terminated its borrowing facility with the Royal Bank of Scotland. No borrowing had been made in either year under this facility.

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. The investments in equity and fixed interest stocks of unquoted and AIM quoted companies the Company holds are thinly traded, and as such, the prices are more volatile than those of more widely backed securities. In addition, the ability of the Company to purchase or sell investments is also constrained by the requirements set down for venture capital trusts.

## 11. Debtors

	2005 £000	2004 £000
<b>Amounts receivable within one year:</b>		
Prepayments and accrued income	160	101

None of the above amounts relate to the C shares.

## 12. Creditors

	Ordinary Shares 2005 £000	C Shares 2005 £000	Total 2005 £000	Ordinary Shares 2004 £000
<b>Amounts payable within one year:</b>				
Accrued expenses	49	-	49	64
Proposed dividend	333	-	333	741
Accrued expenses of C share issue	-	9	9	-
Amounts payable on purchase of own Ordinary shares	36	-	36	-
	<b>418</b>	<b>9</b>	<b>427</b>	<b>805</b>

The average number of creditor payment days during the year was 16 (2004: 28).

## 13. Deferred Tax

There are no amounts provided or unprovided in respect of deferred tax (2004: £nil).

# Notes to the Financial Statements

## 14. Called-up Share Capital

	2005		2004	
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10p				
Authorised:	18,000,000 (2004: 18,000,000)	<b>1,800</b>	1,800	
Issued:	15,117,838 (2004: 15,435,838)	<b>1,512</b>		1,544
C shares of 50p				
Authorised:	25,000,000 (2004: nil)	<b>12,500</b>	–	
Issued:	249,575 (2004: nil)	<b>125</b>		–
<b>Total</b>				
Authorised:	<b>14,300</b>		1,800	
Issued:		<b>1,637</b>		1,544

The movement in the year was as follows:

	Date	Number	Share Capital £000
Ordinary shares as at 1 April 2004		15,435,838	1,544
Purchases	July 04	(7,500)	(1)
	August 04	(62,500)	(6)
	August 04	(8,000)	(1)
	August 04	(25,000)	(2)
	September 04	(15,000)	(2)
	February 05	(150,000)	(15)
	March 05	(50,000)	(5)
Ordinary shares as at 31 March 2005		<b>15,117,838</b>	<b>1,512</b>
C shares as at 1 April 2004		–	–
C shares issued	February 05	127,420	64
	March 05	122,155	61
C shares as at 31 March 2005		<b>249,575</b>	<b>125</b>
<b>Total as at 31 March 2005</b>		<b>15,367,413</b>	<b>1,637</b>

Full details of the share purchases are set out in the Directors' Report under the heading 'Issue and Buy-Back of Shares'.

The Company's C shares are a class of convertible share, the net proceeds of which are accounted for separately by the Company as a C share Fund until they are converted in accordance with the relevant provisions in the Company's Articles of Association. Dividends will be paid to C shareholders prior to conversion on net income received and accrued from the investments made by the C share Fund. The new Ordinary shares arising on conversion will rank pari passu with the Ordinary shares then in issue. The new Ordinary shares arising on conversion will be divided amongst the C shareholders pro rata to their respective holdings of C shares.

# Notes to the Financial Statements

The surplus capital and assets of the Company shall on a winding-up or on a return of capital (otherwise than on a purchase by the Company of any of its shares) prior to conversion be applied amongst the Ordinary shareholders pro rata according to the nominal capital paid up on their holdings of Ordinary shares after having deducted therefrom an amount determined in accordance with the formula given in the Company's Articles of Association which amount shall be applied amongst the C shareholders pro rata according to the nominal capital paid up on their holdings of C shares.

The capital and assets of the Company shall on a winding-up or on a return of capital (otherwise than on a purchase by the Company of any of its shares) after conversion be applied as follows:

- (a) firstly, if there are deferred shares in issue (deferred shares may be created upon conversion of the C shares in accordance with the formula), in paying to the deferred shareholders 1p in respect of every 1,000,000 deferred shares (or part thereof) of which they are respectively the holders; and
- (b) secondly, the surplus shall be divided amongst the Ordinary shareholders pro rata according to the nominal capital paid up on their holdings of ordinary shares.

The C shares shall carry the right to receive notice of or to attend or vote at any general meeting of the Company. The deferred shares shall not carry any right to receive notice of or to attend or vote at any general meeting of the Company. The voting rights of the Ordinary shares are not affected.

## 15. Reserves

The movement in the year was as follows:

	Share Premium Account**	Capital Redemption Reserve	Revaluation Reserve	Special Reserve*	Profit and Loss Account
	£000	£000	£000	£000	£000
At 1 April 2004	–	43	5,039	3,871	855
Unrealised gain on revaluation of investment portfolio	–	–	2,392	–	–
Realisation of gains on valuation of investments in prior years	–	–	(315)	–	315
C shares issued net of costs	112	–	–	–	–
Purchase of own Ordinary shares	–	32	–	(210)	–
Loss for the year	–	–	–	–	(777)
<b>As at 31 March 2005</b>	<b>112</b>	<b>75</b>	<b>7,116</b>	<b>3,661</b>	<b>393</b>

\* The special reserve is a distributable reserve.

\*\*The share premium account is the only reserve relating to the C shares.

## 16. Reconciliation of Movements in Shareholders' Funds

	Ordinary Shares 2005 £000	C Shares 2005 £000	Total 2005 £000	Ordinary Shares 2004 £000
Beginning of the year	11,352	–	11,352	10,137
Loss for the year	(777)	–	(777)	(1,496)
Purchase of own Ordinary shares	(210)	–	(210)	(35)
Shares issued	–	250	250	–
Cost of share issue	–	(13)	(13)	–
Net unrealised movement in the year	2,392	–	2,392	2,746
<b>As at 31 March</b>	<b>12,757</b>	<b>237</b>	<b>12,994</b>	<b>11,352</b>

# Notes to the Financial Statements

## 17. Net Asset Value per Share

The net asset value per Ordinary share is calculated on attributable assets of £12,757,000 (2004: £11,352,000) and 15,117,838 (2004: 15,435,838) Ordinary 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 Ordinary share are the same.

The net asset value per C share is calculated on attributable assets of £237,000 (2004: £nil) and 249,575 (2004: nil) C shares in issue at the year end. The Company has no securities that would have a dilutive effect, hence the basic and diluted net asset value per C share are the same.

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

	2005 £000	2004 £000
Loss on ordinary activities before tax	(45)	(755)
(Increase) decrease in prepayments and accrued income	(59)	55
Decrease in accruals	(15)	(13)
Gain on realisation of investments	(229)	(111)
Impairment of investments in the year	136	766
<b>Net cash outflow from operating activities</b>	<b>(212)</b>	<b>(58)</b>

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

	2005 £000	2004 £000
Increase (decrease) in cash in the year	376	(133)
Cash outflow (inflow) from decrease (increase) in liquid resources	(950)	1,248
<b>Changes in net funds resulting from cash flows</b>	<b>(574)</b>	<b>1,115</b>
Other non-cash items:		
Movement in value of current asset quoted investments	(50)	(77)
<b>Net funds at beginning of year</b>	<b>2,840</b>	<b>1,802</b>
<b>Net funds at 31 March</b>	<b>2,216</b>	<b>2,840</b>

## 20. Analysis of Net Funds

	31 March 2004 £000	Cash flow £000	Other non cash changes £000	31 March 2005 £000
Cash	184	376	–	560
Current asset investments	2,656	(950)	(50)	1,656
	2,840	(574)	(50)	2,216

# Notes to the Financial Statements

## 21. Financial Commitments

There have been no investments approved by the Board of Directors at 31 March 2005 that have not been reflected in these accounts (2004: £25,000). Since the year end no further investments have been approved by the Board (2004: none).

## 22. Related Party Transactions

Mr Cammerman is a director of YFM Private Equity Limited, the Investment Adviser to the Company, and a wholly owned subsidiary of YFM Group Limited which held 3.5% of the issued share capital of British Smaller Companies VCT plc at 31 March 2005 (2004: 3.4%). Mr Cammerman is also director of Yorkshire Enterprise Group (Holdings) Limited, the ultimate parent company of YFM Private Equity Limited, in which he has a beneficial shareholding.

On 20 June 2003, Yorkshire Enterprise Finance Limited, an associated company of Yorkshire Enterprise Group (Holdings) Limited, invested £250,000 in Primal Pictures Limited, an investee of the Company, by way of a convertible loan, entitling it to an equity interest of 1.23%, the benefit of which ultimately vests with YFM Group Limited, the parent company of YFM Private Equity Limited, the Investment Adviser to the Company.

Up to the date of disposal, Mr Pettigrew was 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 held a 0.1% equity interest in this company. During the year he received remuneration of £8,500 (2004: £9,000) 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 (2004: £5,000) from Tamesis Limited in respect of his services.

Mr Lindemann, who served as a director of your Company for part of the year, 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% (2004: 0.92%) equity interest in this company. Equity ventures Limited, a company in which Mr Lindemann has a beneficial interest, was paid £8,000 by International Resources Group Limited in respect of his services, up to the date of his retirement from British Smaller Companies VCT plc (2004: £12,000).

Mr Leach, who served as a director of your Company for part of the year, 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. YFM Private Equity Limited, a wholly owned subsidiary of Yorkshire Enterprise Group (Holdings) Limited in which Mr Leach has a beneficial interest, was paid £2,700 by the JDA Group Limited in respect of his services, up to date of his retirement from British Smaller Companies VCT plc (2004: £5,000).

Under the Subscription Rights Agreement dated 28 February 1996 (assigned as described on pages 30 to 31), The YFM Private Equity 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.

# Notes to the Financial Statements

Under an Agreement dated 26 November 2004, YFM Private Equity Trust will be entitled to receive a payment to recognise exceptional performance in relation to the C share Fund. The performance related payment will only take effect when the total return to C shareholders (as measured by the net asset value per C share) plus dividends paid per C share exceeds 8% per annum ('the Hurdle Rate'), and will be an amount equivalent to 20% of the excess over the Hurdle Rate calculated and payable annually for each of the financial periods up to 31 March 2008 unless conversion of the C shares shall have taken place prior to that date. Under the agreement, performance shortfall in any one year will have to be made up in the following year(s) before a further payment can be made and value added tax (if applicable) will be payable thereon.

## 23. Post Balance Sheet Events

On 5 April 2005, the Company issued 907,276 C shares of 50 pence each at £1 per share, raising net proceeds of £888,597.

On 31 May 2005, the Company issued 89,625 C shares of 50 pence each at £1 per share, raising net proceeds of £83,350.

On 3 May 2005, the Board appointed Stephen Noar as a non-executive director. Biographical details can be found on page 20 of the Annual Report.

On 27 May 2005, the Company realised its investment in Harlands of Hull Limited for cash proceeds in excess of the carrying value of £1.42 million at 31 March 2005. The Company has initially received net proceeds of £1.55 million from this £500,000 investment made in September 2003, with further cash proceeds of up to £157,000 due dependent upon certain conditions being met.

On 2 June 2005, the Company realised its investment in Warthog plc for net proceeds of £5,500. The carrying value of this investment as at 31 March 2005 was £10,000.

There have been no significant investments made since the year end (2004: £225,000).

# Notice of the Annual General Meeting

**No: 3134749**

## **BRITISH SMALLER COMPANIES VCT plc**

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 23 Berkeley Square, London W1J 6HE on 26 July 2005 at 12.45pm for the following purposes:

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

### **As Ordinary Business**

#### **ORDINARY RESOLUTIONS**

1. That the Annual Report and accounts for the year ended 31 March 2005 be received.
2. That a final dividend for the year to 31 March 2005 of 2.2p per Ordinary Share be approved.
3. That the Directors' Remuneration Report be approved.
4. That Sir Andrew Hugh Smith who retires by virtue of being a director for more than 9 years be re-elected as a director.
5. That Mr P S Cammerman who retires by virtue of being a director for more than 9 years be re-elected as a director.
6. That Mr R Last who retires by virtue of being a director for more than 9 years be re-elected as a director.
7. That Mr R M Pettigrew who retires by rotation be re-elected as a director.
8. That Mr S Noar who retires by virtue of being appointed since the last AGM be elected.
9. That PricewaterhouseCoopers LLP be appointed 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 the directors be authorised to determine their remuneration.

### **BY ORDER OF THE BOARD**

**J E P Gervasio**

**Secretary**

**20 June 2005**

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

Notes:

- (1) A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy must be lodged with the Company's registrars, 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 40(i) of The Uncertificated Securities Regulation 2001, only those members entered on The Company's register of members not later than 12.45pm on 24 July 2005 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 five directors retiring and offering themselves for re-election can be found on page 20 of the Annual Report.

# British Smaller Companies VCT plc

## Form of Proxy

To be used at the Annual General Meeting of the Company  
to be held at 23 Berkeley Square, London W1J 6HE on 26 July 2005 at 12.45pm

I/We ..... being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Meeting or (see note a ..... of ..... as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 26 July 2005 at 12.45pm and at any adjournment thereof.

My/our proxy is to vote as indicated below.

### ORDINARY RESOLUTIONS

	FOR	AGAINST
1. To receive the Directors' Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a Final Dividend	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as a director Sir Andrew Hugh Smith	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as a director Mr P S Cammerman	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect as a director Mr R Last	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect as a director Mr R M Pettigrew	<input type="checkbox"/>	<input type="checkbox"/>
8. To elect as a director Mr S Noar	<input type="checkbox"/>	<input type="checkbox"/>
9. To reappoint PricewaterhouseCoopers LLP as Independent auditors	<input type="checkbox"/>	<input type="checkbox"/>

Signature ..... Dated ..... 2005

### NOTES

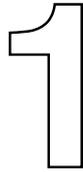
- (a) If you wish to appoint a proxy or proxies other than the Chairman of the Meeting please insert that person's name and address and delete (initialling the deletion) "the Chairman of the Meeting or". A proxy need not be a Member of the Company. You may attend and vote at the Meeting instead of any proxy appointed by you if you so wish.
- (b) Please indicate by inserting "X" in the appropriate box the way in which your proxy is to vote. If you do not do so, your proxy may vote or abstain as he thinks fit. Your proxy will have the authority to vote at his discretion on any amendment or other motion proposed at the Meeting, including any motion to adjourn the Meeting. This proxy will only be used in the event of a poll being directed or demanded.
- (c) This form of proxy must be signed by the appointor or his attorney duly authorised in writing or if the appointor is a corporation this proxy must be given under its Common Seal or be signed by an officer or attorney duly authorised in writing.
- (d) To be valid, this form of proxy duly completed and any power of attorney or other authority (if any) under which it is notorially certified, or office copy of such power or authority, must be deposited at the office of the Company's Registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time appointed for holding the above Meeting or (as the case may be) adjourned Meeting.
- (e) The resolutions are set out in full in the Notice of Annual General Meeting.



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**CAPITA REGISTRARS  
PROXY DEPARTMENT  
PO BOX 25  
BECKENHAM  
KENT  
BR3 4TU**

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# Financial Summary

	Year ended 31 March 2005	Year ended 31 March 2004	Year ended 31 March 2003	Year ended 31 March 2002	Year ended 31 March 2001
Income	£396,000	£364,000	£452,000	£667,000	£730,000
Loss on ordinary activities before tax	£(45,000)	£(755,000)	£(1,027,000)	£346,000	£424,000
Loss on ordinary activities after tax	£(45,000)	£(755,000)	£(1,207,000)	£323,000	£376,000
Loss per Ordinary share	(0.29)p	(4.88)p	(6.60)p	–	–
Total recognised gain (loss) per Ordinary share	15.30p	12.87p	(2.13)p	(13.02)p	(4.38)p
Dividend per share	4.80p	4.80p	0.85p	2.00p	2.30p
Cumulative dividend paid and proposed	29.0p	24.2p	19.4p	18.6p	16.6p
Net assets attributed to Ordinary shares	£12,757,000	£11,352,000	£10,137,000	£10,681,000	£13,086,000
Net asset value per Ordinary share	84.4p	73.5p	65.3p	68.0p	82.9p
Aggregate net asset value return per Ordinary share	113.4p	97.7p	84.7p	86.6p	99.5p
Net asset attributed to C shares	£237,000	–	–	–	–
Net asset value per C share	95.0p	–	–	–	–

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

## Advisers to the Company

- Investment Adviser and Custodian

YFM Private Equity Limited  
Saint Martins House  
210-212 Chapeltown Road  
Leeds LS7 4HZ

- Registrars

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0LA

- Solicitors

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

- Stockbrokers

Teather & Greenwood Limited  
Beaufort House  
15 St Botolph Street  
London EC3A 7QR

- Quoted Investments Adviser

Brewin Dolphin Securities Limited  
34 Lisbon Street  
Leeds LS1 4LX

- Independent Auditors

PricewaterhouseCoopers LLP  
Benson House  
33 Wellington Street  
Leeds LS1 4JP

- VCT Status Adviser

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

- Bankers

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

