3134749

Annual Report

for the year ended 31st March 1999

A19 *AXH8LHUS* 521
COMPANIES HOUSE 08/07/99

CONTENTS

FINANCIAL CALENDAR

Results Announced	*10th June*
Ex-dividend Date	*21st June*
Record Date	*25th June*
Annual General Meeting	*16th July*
Dividend Payment Date	*30th July*

Advisers to the Company

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

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

Registrars
Northern Registrars Limited
Northern House
Penistone Road
Fenay Bridge
Huddersfield
HD8 0LA

Auditors
PricewaterhouseCoopers
Benson House
33 Wellington Street
Leeds
LS1 4JP

Solicitors
Pinsent Curtis
41 Park Square
Leeds
LS1 2NS

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

VCT Status Adviser
PricewaterhouseCoopers
Hamilton House
3 Appold Street
London EC2A 2AA

Quoted Investments Adviser
Carr Sheppards Crosthwaite
2 Gresham Street
London
EC2V 7QN

Financial Highlights

	Year ended 31st March 1999	Year ended 31st March 1998	16 months ended 31st March 1997
Income	**£1,101,000**	£548,000	£297,000
Net revenue before tax	**£803,000**	£339,000	£165,000
Net revenue after tax	**£550,000**	£270,000	£124,000
Earnings per share	**3.50p**	3.42p	3.03p
Total return per share	**2.20p**	10.03p	0.17p
Total dividend per share:			
Net	**3.49p**	3.00p	2.40p
Gross	**4.30p**	3.75p	3.00p
Net assets	**£15,604,000**	£10,996,000	£4,582,000
Net asset value per share	**98.5p**	100.2p	93.0p
Number of qualifying investments	**18**	12	3
Value of qualifying investments	**£7,956,000**	£4,194,000	£835,000

Chairman's Statement

I am pleased to present the third Annual Report and Accounts of British Smaller Companies VCT plc for the 12 months to 31st March 1999.

Investments

Following the further successful issue of shares in 1998, the total funds available for investment increased to £19 million. This figure includes the borrowing facility of £3.75 million. With larger funds available, we have been able to increase our rate of investment and consider larger units. I am pleased to report that we invested £4.5 million in aggregate during the year - an increase of 57% over the previous period. These investments were made into 11 companies, two of which were existing investments. Since the beginning of the current financial year a further investment of £1 million has been made.

In accordance with your Board's policy of investing up to 10% of our available funds in shares of companies listed on AIM the investment portfolio at the year end includes an amount, at cost, of £873,000 invested in 5 AIM companies. During the year we realised profits on two other AIM investments

Currently, we have in the order of £7.6 million available for further venture capital investments. These funds awaiting investment continue to be held in a portfolio of UK gilts with a modest amount held on deposit.

Our Investment Adviser, Yorkshire Fund Managers Limited, continues to have under review some 20 or so investee companies seeking around £15 million. This reservoir of opportunities should allow the Board to maintain the required rate of investment as it has in the past. I am pleased to report that we have exceeded the targets set by the Inland Revenue for investments in qualifying holdings to 31st March 1999.

All our investments conform with the requirements of our stated policy of investing in established unquoted companies with:-

- a turnover in excess of £2.5 million;
- gross assets (prior to the VCT investment) of between £1 million and £10 million;
- a trading history of at least 2 years;
- proven management teams; and
- clearly identified opportunities for growth.

Net Asset Value

As at 31st March 1999 we had 18 companies in the venture capital portfolio. These investments are more fully described in the Investment Adviser's Review.

After an excellent performance in the previous year, the performance of the enlarged portfolio in the year under review was relatively disappointing and there was a small reduction in the net asset value per share. Much of this was due to the difficulties of the manufacturing and allied industrial sectors over the past twelve months and to the insolvency of Goldstar (Natural Fruit Juices) Limited. To some extent this has been offset by one or two excellent performances and by a number of others making steady progress. The overall result is a 1.7% reduction in the net asset value from 100.2p to 98.5p, after total dividends for the year of 3.49p. We look for a better result in the current year on the basis of the trading reports we are receiving at present.

In line with the valuation policies adopted by the Company, which are those approved by the British Venture Capital Association and generally followed by VCTs, investments in unquoted companies are held at cost, less any provision required, for at least one year from the date of investment. Subsequently they are normally valued on a discounted earnings basis. AIM quoted investments are valued at the mid-market price as at the balance sheet date. These policies are set out in full on page 16 of the Report.

CHAIRMAN'S STATEMENT

Five companies in the portfolio at 31st March 1999 have been revalued upwards by between 7% and 54%. In addition an investment was made during the year in Policymaster Plc, an AIM listed company, which was disposed of a few months later for a profit of £44,000, representing 37% on original cost. However, against these appreciations in value there have been decreases in the holding value of five investments held at the year end, two of which are still valued above cost. Furthermore, disposals of Goldstar (Natural Fruit Juices) Limited and Pycraft & Arnold Plc were made at below the 1998 holding value. Seven investments are valued at cost and one has maintained its premium valuation.

The Directors continue to believe the Company's venture capital portfolio is valued prudently. The underlying performance of a number of the companies suggests strong potential for continued steady growth during the coming year.

Revenue Account and Dividend

Gross income for the period increased from £548,000 to £1,101,000. Net income after taxation was more than doubled to £550,000 and earnings per share on revenue account increased from 3.42p to 3.50p per share. The overall total return per share, which includes movements on capital account, was 2.20p (1998 : 10.03p)

Two interim dividends totalling 3.25p per share net were paid to shareholders during the year. This enabled our shareholders to receive a grossed up amount of 4.06p per share in respect of the two dividends.

Despite considerable lobbying by your Investment Adviser and other VCT managers, the Chancellor refused to reverse his decision regarding the grossing up of dividends which arose out of the abolition of ACT. As previously reported, ACT is abolished for all companies from 6th April 1999, and therefore the tax credit is no longer available to shareholders. As a result, we are no longer able to pay dividends in this way. However, future dividends will continue to be free of tax.

Dividend

Your Board has decided to recommend a final dividend of 0.24p per share. This will bring the total dividends for the year to 3.49p per share – an increase of 16% over last year.

The proposed final dividend will be paid, subject to shareholder approval, on 30th July 1999 to shareholders in respect of shares on the register on 25th June 1999.

Purchase of Own Shares

Your board is recommending revised proposals to facilitate the buying in by the Company of its own shares. This will involve the cancellation of the Company's existing share premium account, and the creation, in its place, of a distributable reserve to be used for this purpose and so leave the Company's ability to pay dividends unaffected. At the same time, it is recommended that the existing authority for the Company to purchase its own shares (which expires on 31st December 1999) is to be extended for a further period of eighteen months to 30th June 2001. Special Resolutions to implement this will be proposed at the forthcoming Annual General Meeting. Further details can be found in the Circular which accompanies this Annual Report.

CHAIRMAN'S STATEMENT

Outlook

Your Board believes that the reversal of some of the recent recessionary trends in areas of the UK manufacturing sector and a general if undramatic economic recovery is in sight. With this improvement in the economic environment, and with encouraging indications, at this stage, from a number of our companies, we look forward to a stronger performance by the existing portfolio of investments and to making further investments in the current year.

Andrew Hugh Smith

Sir Andrew Hugh Smith
Chairman
10th June 1999

INVESTMENT ADVISER'S REVIEW

Introduction

Following the initial screening of enquiries the Investment Adviser provides your Board with outline details of potential investments. In suitable cases, following further detailed investigation, specific investment proposals are made to your Board. Following approval by your Board, further due diligence is carried out which will normally include an accountancy report, an analysis of the target investees' customers, markets and operations, and references on their key personnel. Additionally Inland Revenue clearance as a qualifying VCT investment is obtained. A report on these results is then taken back to your Board for final approval prior to completion.

We normally appoint a representative non-executive director to provide strategic guidance to the investee company and our investment agreement requires investees to send us regular reports. We also reserve the right to attend regular board meetings of investees. In this way, we can keep your Board fully informed as to the progress of the investee companies in achieving the objectives set out in their business plans. In the case of our AIM investees, our policy is to make regular contact with the companies and to attend formal and informal briefings.

Of equal importance to shareholders is the process of divestment. This usually occurs in two ways. The first arises out of the redemption of redeemable preference shares and of loans issued to your Company at the time of investment. The second arises upon the sale of our ordinary shares, either as part of the sale of the whole investee company or, in some situations, the sale of our own shareholding to management, a third party, or back to the investee companies themselves.

Operations

During the year under review, the regional network of offices continued to develop high quality enquiries. The range of industries that were considered included software, electronics, leisure and a range of niche engineering businesses.

We invested £4.5m in 11 companies during the year and received back a total of £471,000 from 4 companies – a net increase in investment of £4m. This compares with a net investment of £2.8m in 9 companies for the previous period. Having completed our initial three years of trading, we are pleased to confirm that we have exceeded the targets set by the VCT legislation in respect of the investment in qualifying holdings and the equity percentage of those investments.

The following section describes the businesses in which we have invested together with a short review of progress made since investing. Also set out in each case is the cost, current value and a resumé of the audited accounts where these are available.

Investment Adviser's Review

Venture Capital Investments made prior to 31st March 1999

Freshroast Coffee Co Limited ("Freshroast") Elland, West Yorkshire

Freshroast processes, packages and markets coffee, tea and related vending ingredients to distributors and beverage system operators. Our original investment of £160,271 was made in July 1996 to fund the management buy out from a plc. Since that time the company has progressed steadily and repaid 50% of the original investment at a premium.

		1999	1998
Equity held:		**13%**	13%
Cost:		**£80,271**	£135,271
Valuation:		**£186,408**	£281,251
Valuation method:		**Earnings P/E 9**	Earnings P/E 9
Income received during the year:	Dividends	**£2,200**	£5,968
	Interest	**£6,550**	£6,505
Realisation proceeds during the year:		**£63,250**	£27,500

	12 months	8 months
Audited results (£000):		
Period ended 31st December:	1997	1996
Turnover	5,323	2,315
Earnings before interest and tax	253	82
Profit before tax	198	8
Profit after tax	147	5
Dividends	24	-
Net assets	274	206

Audited results for the year ended 31st December 1998 are not yet available

RMF Engineering Limited ("RMF") Dinnington, South Yorkshire

RMF designs and fabricates a range of process plant from specialist metals such as titanium, zirconium and stainless steel. Its niche high performance engineering products are sold on a worldwide basis. Since our £300,000 investment was made in February 1997 to fund the buy out and to provide working capital, the business has progressed well in a market where new investment in capital projects is under pressure.

		1999	1998
Equity held:		**25%**	25%
Cost:		**£300,000**	£300,000
Valuation:		**£529,350**	£529,350
Valuation method:		**Earnings P/E 8**	Earnings P/E 8
Income received during the year:	Dividends	**£98,100**	£33,860

Audited results (£000):		
Year ended 31st December:	1998	1997
Turnover	4,730	3,753
Earnings before interest and tax	704	283
Profit before tax	717	294
Profit after tax	517	277
Dividends	323	100
Net assets	1,397	1,203

INVESTMENT ADVISER'S REVIEW

Morgan Machine Knife Limited ("Morgan") Bakewell, Derbyshire

Morgan was established in 1843 to manufacture a specialised industrial knife for the then burgeoning leather industry. Since that time it has developed its expertise into the paper, textiles and other industries and has used advanced materials technology to improve product performance. These consumable products are sold worldwide. Since investing in May 1997 to fund the management buy out from other investors, Morgan has made good progress in an environment where the continued high level of sterling has had an effect.

		1999	1998
Equity held:		**17.6%**	17.6%
Cost:		**£350,000**	£350,000
Valuation:		**£537,818**	£350,000
Valuation method:		**Earnings P/E 8**	Cost
Income received during the year:	Dividends	**£33,350**	£18,717

Audited results (£000):	
13 months ended 30th April:	1998
Turnover	4,621
Earnings before interest and tax	653
Profit before tax	433
Profit after tax	288
Dividends	80
Net Assets	760

Goldcrest Homes Plc ("Goldcrest") London

Goldcrest is a specialist housebuilding company. It operates within the Inner London Boroughs surrounding the West End and City of London where it has evolved its specialised and detailed planning knowledge and marketing techniques. It has concentrated its marketing on the professional first time Buyer and South East Asian purchasers thereby avoiding complex chain sales. The £500,000 investment was made in June 1997 and was structured in a high coupon loan stock with an equity option. Since the year end formal notice has been received from the company of its intention to redeem the investment in full on 28th November 1999, together with accumulated premiums.

		1999	1998
Equity held:		-	-
Cost:		**£500,000**	£500,000
Valuation:		**£583,125**	£500,000
Valuation method:		**Proportional accrual of redemption premium**	Cost
Income received during the year:	Interest	**£78,095**	£32,318

Audited results (£000):	12 months	18 months
Period ended 31st March:	1998	1997
Turnover	9,812	9,758
Earnings before interest and tax	2,056	1,857
Profit before tax	1,809	1,502
Profit after tax	1,234	984
Dividends	596	258
Net Assets	3,096	2,458

Investment Adviser's Review

G B International Limited ("GBI") Milton Keynes

GBI, based in Milton Keynes, distributes audio visual presentation equipment. Its products range from unsophisticated overhead projection equipment to high resolution plasma screens, LCD projection equipment and video conferencing systems for the professional market. Since our investment in September 1997, GBI has taken on additional lines and developed its own direct selling catalogue, internet and E commerce trading systems.

		1999	1998
Equity held:		**20%**	20%
Cost:		**£400,002**	£400,002
Valuation:		**£366,668**	£400,002
Valuation method:		**Ordinary shares - 25% provision**	Cost
		Preference shares - cost	Cost
		Loan- cost	
Income received during the year:	Dividends	**£18,790**	£4,581
	Interest	**£16,015**	£9,165

Audited results (£000):		
Year ended 31st December:	1998	1997
Turnover	9,254	9,074
Earnings before interest and tax	132	31
Profit (loss) before tax	5	(89)
Profit (loss) after tax	4	(100)
Dividends	42	33
Net Assets	468	507

Ray Engineering Company Limited ("Ray Engineering") Bristol

Based in Bristol, Ray Engineering designs and manufactures a wide range of knobs, handles and hand wheels used in machinery and equipment in the engineering market. Our total investment of £535,000 funded the purchase of the company and was drawn down by way of £435,000 in November 1997 and £100,000 in November 1998. In a market adversely affected by the manufacturing recession, Ray Engineering has used the additional investment to widen its range of products and to broaden its marketing activities.

		1999	1998
Equity held:		**37%**	30%
Cost:		**£535,000**	£435,000
Valuation:		**£535,000**	£435,000
Valuation method:		**Cost**	Cost
Income received during the year	Dividends	**£nil**	£14,887

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

Investment Adviser's Review

CRC Plc ("CRC") Aylesbury

CRC of Aylesbury is one of Europe's leading independent providers of repair management and repair services for electronic computer components and peripherals based on its own proprietary and specialist repair system. CRC's principal customers are internationally renowned original equipment and component manufacturers and include IBM, Sun and Digital Equipment. Our original investment of £126,900 in November 1997 funded working capital at the time of its introduction to AIM. An additional investment was made in July 1998 as part of a rights issue to provide further working capital to fund an acquisition which, as the results below suggest, has made satisfactory progress.

		1999	1998
Equity held:		**1%**	0.8%
Cost:		**£242,972**	£93,600
Valuation:		**£268,085**	£167,960
Valuation method:		**mid-market value at 31st March 1999**	mid market value at 31st March 1998
Income received during the year:	Dividends	**£2,070**	£nil
Realisation proceeds during the year		**£nil**	£58,172

Audited results (£000):		
Year ended 31st December:	1998	1997
Turnover	22,388	12,685
Earnings before interest and tax	2,095	978
Profit before tax	2,013	932
Profit after tax	1,285	644
Dividends	612	429
Net Assets	11,993	547

Bond International Software Plc ("Bond") Cowfold, West Sussex

Bond, based in West Sussex, designs, develops and supplies computer software and hardware to the recruitment and personnel industries. It has developed its own proprietorial software known as ADAPT which is installed in 7 out of the top 10 (by turnover) recruitment agencies in the UK and 6 out of the top 10 (by turnover) in the USA. Leading customers include Hays, Kelly, Manpower and Select. Bond has made steady progress since our investment in December 1997.

	1999	1998
Equity held:	**1.7%**	1.7%
Cost:	**£150,000**	£150,000
Valuation:	**£215,769**	£201,923
Valuation method:	**mid-market value at 31st March 1999**	mid market value at 31st March 1998
Income received during the year:	**£nil**	£nil

Audited results (£000):		
Year ended 31st December:	1998	1997
Turnover	8,808	6,396
Earnings before interest and tax	859	728
Profit before tax	935	718
Profit after tax	620	482
Dividends	-	-
Net Assets	3,026	2,392

INVESTMENT ADVISER'S REVIEW

International Resources Group Limited ("IRG") London

IRG was set up to acquire Odgers International Limited, one of the oldest recruitment firms in London. The company recruits high calibre personnel for prestigious clients which include major institutions as well as ambitious fast growing entrepreneurial businesses. Our investment in February 1998 funded the purchase and provided working capital. Following a year of consolidation, IRG is making good progress.

		1999	1998
Equity held:		**6.25%**	6.25%
Cost:		**£600,000**	£600,000
Valuation:		**£600,000**	£600,000
Valuation method:		**Cost**	Cost
Income received during the year:	Interest	**£61,358**	£nil

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

SBS Group Plc ("SBS") London

SBS is a specialist recruitment agency providing IT contractors to a range of blue chip organisations and international financial institutions in the UK, the US and other parts of Europe. The company has expanded rapidly over the last 12 months on the back of the "Year 2000" problem. Future expansion will be based on the increasing demands of European Monetary Union. The company is listed on AIM and our investment of £100,000 made in March 1998 formed part of a new issue of shares to fund an acquisition. SBS has doubled its profits in the year to 31st August 1998 but this has not been reflected in its current listed value.

		1999	1998
Equity held:		**0.5%**	0.6%
Cost:		**£100,000**	£100,000
Valuation:		**£71,000**	£131,000
Valuation method:		**mid-market value at 31st March 1999**	mid market value at 31st March 1998
Income received during the year:	Dividends	**£880**	£nil

Audited results (£000):		
Year ended 31st August:	1998	1997
Turnover	35,856	17,914
Earnings before interest and tax	1,743	870
Profit before tax	1,485	687
Profit after tax	974	466
Dividends	282	69
Net Assets	1,237	618

INVESTMENT ADVISER'S REVIEW

Venture Capital Investments made in the 12 months to 31st March 1999

CCCoutdoors Limited ("CCC") Sheffield

CCC based in Sheffield is a well established retailer of camping and caravan accessories, tents, outdoor clothing, footwear and ski wear. It operates from a single 32,000 square foot outlet and carries an extensive product range. Our investment made in May 1998 funded the buy out by the company's general manager in conjunction with a strong buy-in candidate. Following the buy out, CCC has consolidated its systems and made progress in this competitive retail sector.

		1999
Equity held:		20%
Cost:		£500,000
Valuation:		£500,000
Valuation method:		Cost
Income received during the year:	Dividends	£9,830
	Interest	£20,338

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

Rainbow Garden Products Limited ("Rainbow") Eastbourne

Based in Eastbourne, Rainbow operates mainly in the retail garden consumables market, trading under the brand names of Rainbow and Rainbow 2000. Its product range includes ornamental arches, plant labels, ties and string as well as small hand-held tools. In addition to the retail trade, the company also supplies the professional garden markets, including the forestry sector, market gardens, fruit farms, parks and gardens. As planned at the time of the buy out in June 1998, Rainbow has broadened both its product range and its marketing effort.

		1999
Equity held:		29%
Cost:		£425,000
Valuation:		£425,000
Valuation method:		Cost
Income received during the year:	Dividends	£19,942

Audited results (£000):	5 months
Period ended 30th November	1998
Turnover	709
Earnings before interest and tax	39
Profit before tax	21
Profit after tax	21
Dividends	16
Net Assets	440

INVESTMENT ADVISER'S REVIEW

TIB Plc ("TIB") Merthyr Tydfil

With its manufacturing base in Merthyr Tydfil, TIB is a major manufacturer of CDs and is the UK's market leader in the field of floppy disc duplication. Our investment of £500,000 in June 1998 was part of an institutional syndicated package of £1.25 million that enabled the company, then based in Bradford, to acquire the Merthyr based business. Following a period of consolidation at Merthyr, the business continues to lead its field and is constantly looking at new technologies to expand its activities.

		1999
Equity held:		16%
Cost:		£500,000
Valuation:		£500,000
Valuation method:		Cost
Income received during the year:	Dividends	£10,948

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

Denison Mayes Group Limited ("Denison Mayes") Leeds

Denison Mayes manufactures a wide range of materials testing equipment used in the engineering market and operates from a modern purpose built factory. Our investment of £700,000 was provided as part of a £2.7 million package to fund the management buy out of the company from its owners in August 1998. After a difficult first quarter Denison Mayes is now making steady progress.

		1999
Equity held:		45%
Cost:		£700,000
Valuation:		£525,000
Valuation method:		25% provision
Income received during the year:	Dividends	£15,709
	Interest	£20,250

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

INVESTMENT ADVISER'S REVIEW

Honeycombe Leisure Plc ("Honeycombe") Preston

Honeycombe operates a managed estate of 33 public houses, located within approximately two hours drive from the company's head office. Our investment of £200,750, in ordinary shares, was made in October 1998 and formed part of a larger fund raising exercise at the time of the company's introduction to AIM. The proceeds are being used by the company to grow via selected acquisitions of additional public houses and through investment in, and improvements to, the existing estate.

	1999	
Equity held:	**1.6%**	
Cost:	**£200,750**	
Valuation:	**£282,875**	
Valuation method:	**Mid market value at 31st March 1999**	
Income received during the year:	**£nil**	
Audited results (£000):		
Year ended 30th April:	1998	1997
Turnover	9,812	7,744
Earnings before interest and tax	1,408	1,201
Profit before tax	1,002	929
Profit after tax	772	850
Dividends	230	247
Net Assets	3,506	2,964

Connaught Plc ("Connaught") Sidmouth

Connaught provides a comprehensive range of property related services including maintenance, refurbishment, refits and facilities management. In addition to the Devon based headquarters the company has six further regional offices. Our investment of £180,000 in ordinary shares was made in November 1998 as part of a £3.2 million placing of shares on the company's admission to AIM.

	1999	
Equity held:	**1.9%**	
Cost:	**£180,000**	
Valuation:	**£215,280**	
Valuation method:	**mid market valuation at 31st March 1999**	
Income received during the year:	**£nil**	
Audited results (£000):	12 months	17 months
Period ended 31st August:	1998	1997
Turnover	39,167	27,424
Earnings before interest and tax	1,337	744
Profit before tax	1,358	749
Profit after tax	895	465
Dividends	90	111
Net Assets	2,827	2,287

INVESTMENT ADVISER'S REVIEW

Eagle Marketing Limited ("Eagle Marketing") Tonbridge

Based in Tonbridge, Kent, Eagle Marketing is a successful, fast growing, importer and distributor of high quality computer components to manufacturers of personal computers. Over the years the company has built up an enviable reputation for being a reliable supplier. Our investment of £1,000,000 was made in December 1998 to fund the buy out of the company.

	1999
Equity held:	30%
Cost:	£1,000,000
Valuation:	£1,000,000
Valuation method:	Cost
Income received during the year:	£nil

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

Images at Work Limited ("Images") Salisbury

Based in Salisbury, Images supplies and manages corporate clothing contracts to a portfolio of around 200 large and small clients throughout the UK including a number of blue chip companies. Our investment of £615,000 was made in March 1999 to fund the buy out from its previous owner.

	1999
Equity held:	33%
Cost:	£615,000
Valuation:	£615,000
Valuation method:	Cost
Income received during the year:	£nil

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

INVESTMENT ADVISER'S REVIEW

Venture Capital Investments made since 1st April 1999

First Stop Stationery Limited ("First Stop") Lancashire

Based predominantly in the North West First Stop operates from 20 stores retailing a range of personal stationery and related products. The company which has a good growth record currently is profitable on a turnover of circa £5 million. Our investment of £1,000,000 was made in June 1999** to fund the purchase of the company and to provide additional working capital. **It is structured as a mixture of preference and ordinary shares.

	1999
Equity held:	37%
Cost:	£1,000,000

Portfolio Performance

When making investments our objective is to provide the Company with a portfolio that will produce a revenue stream sufficient to pay an increasing dividend return to shareholders whilst ensuring strong capital growth in the medium-to-long term. In the short-term, however, the value of the investment portfolio is susceptible to downturns with losses crystallising before gains are recognised or realised, particularly as investments are not revalued until the second year.

We believe that considerable progress has been made in increasing and widening the scope of qualifying investments. Total income from qualifying investments increased significantly during the period – a factor which has enabled us to increase dividends to shareholders. Despite the disappointing reported capital return for the year we remain optimistic as to the medium and long-term potential of the portfolio. Our investees have held their own in what has been a difficult year generally for industry and for small and medium sized companies in particular. Most of the investments made during the period remain valued at par and, therefore, considerable scope remains for capital as well as income growth within the portfolio.

Outlook

The new financial year has already begun well with £1.45 million committed so far this year of which £1 million has been invested. The current level and quality of enquiries is as high as it has ever been – the result of a slightly more buoyant economy and the effectiveness of our regional base of introducers.

Our objective remains to continue to work within the strict investment policy parameters set out in our original 1996 Prospectus. We demonstrated progress this year in all aspects of the Investment Adviser's operations. With a slowly improving low inflation economy the outlook for the portfolio remains promising for its growth in numbers, income and value.

Philip S. Cammerman
Yorkshire Fund Managers Limited
10th June 1999

VALUATION OF VENTURE CAPITAL INVESTMENTS

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

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

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

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

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

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

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

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

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

DIRECTORS

Sir Andrew Colin Hugh Smith
Chairman (67), 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 Penna Plc, and of the European Advisory Board of Andersen Consulting. He is a non-executive director of Barlow Limited and of Barlow International Plc and chairman of British Smaller Technology Companies VCT plc.

Christopher John Brown
(45), has worked in finance with Jaguar and Lucas and in general management with GEC and FKI Babcock. He co-led the management buy-in of David Brown Group Plc in January 1990 and was chief executive until the acquisition by Textron Inc in 1998. He is currently non-executive director of Seabeam Airways Limited and Seabeam Partners Limited and non-executive chairman of Johnson Radley Limited. He is also a member of the Industrial Development Board for Yorkshire, The Humber and East Midlands.

Philip Simon Cammerman
(57), has over 26 years of industrial experience in engineering and high tech industries and has worked in both the USA and the UK. He has spent the last 11 years in the venture capital industry in the North of England and is managing director of Yorkshire Fund Managers Limited. He has been responsible for a wide range of venture capital deals in a variety of industries including high tech, software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of the Company.

Richard Last
(41), is chief executive of Lynx Group Plc a computer software, systems and services group which he joined in 1991. Prior to that he was finance director of Quadrant Group Plc which he joined in 1987 from Coopers & Lybrand and is a non executive director of British Smaller Technology Companies VCT plc.

Clive William Leach
(64), has worked in the UK television and advertising industry for 30 years. He is former chairman and chief executive of Yorkshire Tyne-Tees Television Plc. He is currently chairman of Yorkshire Enterprise Limited, Yorkshire Fund Managers Limited, Leeds TEC, Gabriel Communications Limited and Leeds Health Authority. He is a non-executive director of Saint Martins Management Limited, Opera North Limited, and Yorkshire and Humberside Development Agency.

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

John Junior Seed
(61), worked in the electricity industry for nearly forty years. As deputy chairman, he steered South Western Electricity through privatisation and was appointed chief executive of that company in 1992. He resigned following the sale of South Western Electricity to Southern Investments UK Plc the wholly owned subsidiary of The Southern Company USA. He is currently chairman of Warren Associates Limited and Gaia Trust (Creed) Limited, and is a non-executive director of the United Utilities Plc and Prism Rail Plc.

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

Registered No: 3134749

DIRECTORS' REPORT

FOR THE 12 MONTHS TO 31ST MARCH 1999

Principal Activity and Business Review

The Company is an investment company as defined in Section 266 of the Companies Act 1985. The Company operates as a venture capital trust and has been provisionally approved by the Inland Revenue as an authorised venture capital trust under Section 842AA of the Income and Corporation Taxes Act 1988. The directors expect that the Company will continue with this activity for the foreseeable future.

The revenue account for the year is set out on page 25.

The directors consider the result for the year and the financial position at the year end to be satisfactory.

A review of the Company's operations is given in the Chairman's statement on pages 2 to 4 and the Investment Adviser's Review on pages 5 to 15.

Results and Dividends

The revenue profit for the period after taxation amounted to £550,000. A first interim dividend of 2.19p gross (1.75p net) per share was paid on 18th December 1998. A second interim dividend of 1.88p gross (1.5p net) per share was paid on 30th March 1999 to enable shareholders to maximise their total return prior to changes in taxation on 6th April 1999.

The directors recommend the payment of a final dividend of 0.24p per share. A resolution to this effect will be proposed at the Annual General Meeting to be held on 16th July 1999.

The net asset value per Ordinary share at 31st March 1999 was 98.5p. The transfer from revenue reserves is given in note 16 on page 37.

Share Capital

Between 1st April 1998 and 2nd June 1998 4,866,345 10p Ordinary shares were subscribed for at £1.05 in connection with a Public Issue for cash as set out in the prospectus dated 13th February 1998 and pursuant to the directors' authority to allot shares.

On 26th June 1998 the Company purchased 6,000 10p Ordinary shares, representing 0.04% of the called up capital on that date, at a price of 93p. These shares have been cancelled. The purchase was made in the market in furtherance of the Board's policy of maintaining liquidity in the Company's shares.

Share Liquidity

On 23rd December 1997 a Special Resolution was passed by shareholders in substitution for the authority granted by shareholders on 2nd January 1997 to enable the Company to purchase up to 10% of the issued Ordinary shares at 1st June 1998 at a price not exceeding the average of the middle market prices for the 5 business days immediately preceding the day on which the purchase is made, or £1.05p, whichever is the lower. This authority expires on 31st December 1999.

Since it is anticipated that any purchases will be made at a discount to net asset value and any Ordinary shares which are purchased will be cancelled, the net asset value of the remaining Ordinary shares in issue would increase.

A Special Resolution to extend this authority to 30th June 2001 is to be proposed at the forthcoming Annual General Meeting.

DIRECTORS' REPORT

In order to facilitate these purchases of the Company's own shares the Board has decided to seek shareholders' authority to cancel the Company's share premium account. Upon cancellation, a distributable reserve will be created which can then be used by the Board for such purposes. A Special Resolution to cancel the share premium account is to be proposed at the forthcoming Annual General Meeting and the full details of this proposal are included in the Circular accompanying this Annual 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.

Directors and their Interests

The directors of the Company at 31st March 1999 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 31st March 1999	**Number of Ordinary shares at 31st March 1998**
Sir Andrew Hugh Smith	30,000	30,000
C J Brown	15,000	15,000
P S Cammerman	15,000	15,000
R Last	15,000	15,000
C W Leach	145,000	145,000
R Lindemann	15,000	15,000
J J Seed	15,000	15,000

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

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

Mr Last and Mr Leach retire from the Board by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Brief biographical notes on the directors are given on page 17. No director has a contract of service with the Company 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 has no employees.

Administration

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

Under the Subscription Rights Agreement dated 28th February 1996 Yorkshire Fund Managers Limited has a performance-related incentive, structured so as to entitle it to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to shareholders by the end of April 2001. 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 FT-SE Actuaries All-Share Index over the relevant period, calculated on a total return basis.

DIRECTORS' REPORT

Substantial Shareholdings

Yorkshire Enterprise Limited, the ultimate holding company of Yorkshire Fund Managers Limited which acts as Investment Adviser and performs administrative and secretarial services to the Company, held 3.3% of the issued share capital at 31st May 1999. 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.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 40 of these financial statements.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1st July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm PricewaterhouseCoopers as auditors.

A resolution to re-appoint PricewaterhouseCoopers will be put to the members at the Annual General Meeting.

Post Balance Sheet Events

Venture capital investments made following the year end are set out in the Investment Adviser's Review and note 24 to the financial statements.

Statement of Directors' Responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the 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.

Year 2000 Compliance

The Company's Investment Adviser, Yorkshire Fund Managers Limited, undertakes the administrative and secretarial duties for the Company. Yorkshire Fund Managers Limited is taking steps to ensure, as far as possible, that its systems are Year 2000 compliant. There is likely to be no significant cost to the Company in complying with any internal Year 2000 issues. However, the Board recognises that the main exposure for the Company to Year 2000 compliance risks relates to the compliance of investee companies and the consequent impact on the carrying value of those companies. To this end, the Board has taken steps, through Yorkshire Fund Managers Limited, to ensure that investee companies are addressing Year 2000 compliance issues within their own organisation.

DIRECTORS' REPORT

Statement of Corporate Governance

In June 1998, the London Stock Exchange published the Combined Code of Best Practice ("the Combined Code"). This embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 23rd December 1998.

The directors are committed to the principle and application of sound Corporate Governance and confirm that the Company has taken appropriate steps, relevant to its size and operational complexity, to comply with the Combined Code.

The Directors have complied throughout the year with the Combined Code except for those new provisions introduced during the year relating to the appointment of a recognised senior independent non-executive director (see below).

The Board

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

There are no executive officers of the Company and the directors are remunerated as set out at page 30. Given the structure of the Board and the fact that the Company's administration is conducted by Yorkshire Fund Managers Limited the Company has not appointed a Chief Executive Officer or a senior independent non executive director.

Any new appointments to the Board will be subject to agreement by the whole Board and subsequent confirmation by shareholders at the following Annual General Meeting. One third of all directors are subject to re-election each year. Biographical details of the two directors seeking re-election this year may be found at page 17. Due to the size of the Board and the appointment and remuneration procedures currently in place, in the directors' opinion, there is no requirement for an independent Remuneration or Nomination Committee.

The full Board meets at least six times per year and additionally as the need arises.

The directors have been appointed on terms which allow them to take independent advice at the Company's expense.

Internal Financial Control

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

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

- regular review of the Company's investments, liquid assets and liabilities, and revenue and expenditure.

- regular review of compliance with the venture capital trust regulations to retain status.

- the Audit Committee reviews the internal financial control procedures adopted by the Investment Adviser

- the Board approves annual budgets prepared by the Investment Adviser

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

DIRECTORS' REPORT

An Audit Committee was established on 2nd May 1997 with written terms of reference. The members of the Committee are independent of the Investment Adviser and are Sir Andrew Hugh Smith, C J Brown, R Last and J J Seed. The committee meets at least twice during the year with a representative from the auditors being present each time. This committee deals with matters relating to audit, financial reporting and internal financial control systems. The directors acknowledge their responsibility for the Company's systems of internal financial control and have reviewed the effectiveness of those systems for the period to the date of this report. The directors are of the opinion that the Company's systems of internal financial and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company. Internal financial control systems are designed to meet the particular risks to which the Company is exposed and, by their nature, can provide reasonable, but not absolute, assurance against material misstatement or loss. The directors are satisfied that there is no requirement for an internal audit function.

While the Board is responsible for the Company's system of internal controls and for monitoring its effectiveness, publication of formal guidance as to the review of non-financial internal control, as required by the Combined Code. is awaited. A Task Force has been established by the ICAEW to develop guidance on internal control and its draft findings have recently been announced. The Board will seek to ensure that the Company is compliant with such guidance when it is issued. Consequently, the directors consider that at the present time they are unable to report that they have undertaken, during the period, a formal review of the effectiveness of the Company's system of non-financial internal controls as envisaged by the Combined Code.

Relations with Shareholders

This year's AGM will be held on 16th July 1999. The Notice of Meeting is circulated 20 working days before the AGM in compliance with the recommendation contained in the Combined Code.

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

Investment policy

The investment policy of the Company is aimed at minimising shareholder risk by concentrating investments in established companies which meet the criteria as set out in the Chairman's Statement on page 2.

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

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

Prior to the investment of shareholders' money in suitable qualifying venture capital companies the liquid assets of the Company are invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to Yorkshire Fund Managers Limited, the portfolio is managed by Carr Sheppards Crosthwaite 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.

DIRECTORS' REPORT

Financial Assets

Investments made in suitable qualifying holdings typically comprise of Ordinary shares with either fixed rate coupon Preference shares or debenture loans, or both. Each investment is revalued in accordance with the British Venture Capital Association guidelines, a summary of which is set out on page 16 of this report. Investments in fixed interest Government securities are valued at their market value as at the balance sheet date. To this end, the directors consider that the carrying value of the portfolio at 31st March 1999 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 10% of funds available for investment to be invested in AIM listed companies that meet the Company's investment criteria. Where appropriate, the Board will invest relatively small amounts in new share issues of AIM listed 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 the unquoted investments. When making investments in AIM listed 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 31st March 1999 can be found in the Investment Adviser's Report and notes 9 and 10 to these Financial Statements.

Going Concern

After due consideration, the directors believe that it is appropriate to continue to apply the going concern basis in preparing the financial statements.

By order of the Board

J E P Gervasio
Company Secretary
10th June 1999

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Members of British Smaller Companies VCT plc

We have audited the financial statements of British Smaller Companies VCT plc on pages 25 to 39.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 20 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 or the Listing Rules 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.

We review whether the statement on pages 21 and 22 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not.

We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

Basis of 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31st March 1999 and of its total return, net revenue and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
Leeds

10th June 1999

STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT)

FOR THE YEAR ENDED 31ST MARCH 1999

		Year ended 31st March 1999			Year ended 31st March 1998		
	Notes	**Revenue £000**	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Net (losses)/gains on investments	16	-	**(33)**	**(33)**	-	607	607
Income	2	**1,101**	-	**1,101**	548	-	548
Investment advisory fee	3	**(78)**	**(235)**	**(313)**	(36)	(108)	(144)
Other expenses	3	**(220)**	-	**(220)**	(173)	-	(173)
Net return on ordinary activities before taxation		**803**	**(268)**	**535**	339	499	838
Tax on ordinary activities	5	**(253)**	**64**	**(189)**	(69)	23	(46)
Net return on ordinary activities after taxation		**550**	**(204)**	**346**	270	522	792
Dividends in respect of equity shares	6	**(553)**	-	**(553)**	(247)	-	(247)
Transfer (from)/to reserves		**(3)**	**(204)**	**(207)**	23	522	545
Return per Ordinary share:							
Basic	7	**3.50p**	**(1.30)p**	**2.20p**	3.42p	6.61p	10.03p
Fully diluted	7	**3.50p**	**(1.30)p**	**2.20p**	3.36p	6.50p	9.86p

Notes

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

All activity has arisen from continuing operations.

There is no difference between the net revenue on ordinary activities before taxation and the transfer (from)/to reserves for the financial period and their historic cost equivalents.

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

Balance Sheet

at 31st March 1999

	Notes	31st March 1999 £000	31st March 1998 £000
Fixed Assets			
Investment portfolio	8(a)	7,956	4,194
Current Assets			
Investments	8(b)	6,879	6,527
Debtors	12	465	426
Cash	21	457	794
		7,801	7,747
Creditors: amounts payable within one year	13	(153)	(945)
Net Current Assets		7,648	6,802
Total Net Assets		15,604	10,996
Capital and Reserves			
Called up share capital	15	1,584	1,098
Share premium account	16	13,815	9,481
Capital redemption reserve	16	3	2
Capital reserve	16	201	405
Revenue reserve	16	1	10
Equity shareholders' funds		15,604	10,996
Net asset value per Ordinary share	18	98.5p	100.2p

Signed on behalf of the Board

Andrew Hugh Smith

Sir Andrew Hugh Smith
Director
10th June 1999

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

Cash Flow Statement

for the year ended 31st March 1999

	Notes	Year ended 31st March 1999 £000	Year ended 31st March 1998 £000
Net cash inflow from operating activities	19	**314**	227
Taxation			
Tax repayments received		**19**	-
Advance corporation tax paid		**(61)**	(38)
Net Tax Paid		**(42)**	(38)
Investing activities			
Purchase of investments		**(4,490)**	(2,865)
Proceeds from disposal of investments		**471**	86
Net cash outflow from investing activities		**(4,019)**	(2,779)
Equity dividends paid to shareholders		**(659)**	(177)
Management of liquid resources			
Purchase of fixed interest government stocks		**(6,627)**	(8,688)
Proceeds from the sale of fixed interest government stocks		**6,499**	3,701
Cash placed on short term deposit		**-**	147
Net cash outflow from management of liquid resources		**(128)**	(4,840)
Financing			
Issue of Ordinary shares		**4,492**	6,400
Issue expenses		**(289)**	(326)
Purchase of own shares		**(6)**	(21)
Consideration for unallotted share capital		**-**	618
Net cash inflow from financing		**4,197**	6,671
Decrease in cash	21	**(337)**	(936)

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH 1999

1. Principal Accounting Policies

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

Basis of Accounting

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

Income

Dividend income on unquoted equity shares is recognised on a receipts basis and is stated inclusive of tax credits. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. All other income is recognised on an accruals basis.

Expenses

Expenses are accounted for on an accruals basis and except for a proportion of the investment advisory fee are charged through the revenue account.

The investment advisory fee is allocated as to 75% to capital reserve and 25% to revenue account in accordance with the listing particulars issued at the time of flotation. Tax relief is allocated to capital reserve using an effective rate basis.

Investments

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

Although the Company holds more than 20% of the equity of certain companies, the directors consider that. in view of the current investment objectives of the Company, it would not be appropriate to treat these holdings as investments in associated undertakings.

Quoted investments are valued at middle market prices. Gross income derived from these securities is credited to the revenue account whereas any amortisation or changes in their market value is debited or credited directly to capital reserves.

Taxation

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

Advance corporation tax (ACT) paid and payable is written off, except when recovery is considered to be reasonably certain and foreseeable.

Deferred taxation is provided for using the liability method on all timing differences only to the extent that they are expected to crystallise.

NOTES TO THE FINANCIAL STATEMENTS

2. Gross Income

	1999 £000	1998 £000
Income from investments:		
Dividends from unquoted companies	**273**	119
Interest on loans to unquoted companies	**203**	87
Fixed interest government securities	**571**	264
	1,047	470
Interest on deposits	**54**	78
	1,101	548

3. Administrative Expenses

		1999 £000	1998 £000
Investment advisory fee (including irrecoverable VAT)		**313**	144
Administration fee		**37**	35
Directors' remuneration		**65**	44
Auditors' remuneration	- audit fees	**7**	6
	- other	**21**	6
General expenses		**90**	82
		533	317
Allocated to Capital reserve:			
Investment advisory fee		**(235)**	(108)
		298	209

Yorkshire Fund Managers Limited (YFM) provides investment advisory services to the Company under an agreement dated 28th February 1996. The agreement runs for an initial period of three years with effect from this date and may be terminated by not less than twelve months' notice given by either party at any time after the third anniversary of the agreement.

YFM 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 31st March and 30th September, of which 25% is charged to revenue account and 75% to capital reserves.

Under this same agreement YFM also provides administrative and secretarial services to the Company for a fee based on £35,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged 100% to revenue account.

The total remuneration payable to YFM in the year (excluding VAT) was £304,000 (1998: £158,000).

4. Directors' Remuneration

	1999 £000	1998 £000
For services as directors	**45**	36
Amounts paid to third parties for directors' services	**20**	8
	65	44

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

	1999 £000	1998 £000
Sir Andrew Hugh Smith	15	12
C J Brown	10	8
P S Cammerman	-	-
R Last	10	8
C W Leach	10	8
R Lindemann	10	-
J J Seed	10	8

No other emoluments or pension contributions were paid to or on behalf of any director during the period. There are no directors who are remunerated as executive directors. Mr Cammerman, who is the Managing Director of the Company's Investment Adviser, receives no fees as a director of the Company. All fees paid to the directors during the year have been in accordance with the statements in the Company's Listing Particulars and relate to the total funds under management. No directors are, or have previously been, entitled to shares under any share option or long term incentive schemes.

There are no employees other than the directors.

5. Taxation Charge

	1999			1998		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Tax attributable to franked investment income	**55**	**-**	**55**	24	-	24
Corporation tax payable at 27% (1998: 24%)	**152**	**(64)**	**88**	45	(23)	22
ACT written off	**46**	**-**	**46**	-	-	-
	253	**(64)**	**189**	69	(23)	46

6. Dividends

		1999 £000	1998 £000
First Interim paid	- 1.75p per share (1998: 1.25p)	**277**	103
Second Interim paid	- 1.50p per share (1998: nil)	**238**	-
Final proposed	- 0.24p per share (1998: 1.75p)	**38**	144
		553	247

7. Return per Ordinary Share

The basic return per Ordinary share is based on net revenue from ordinary activities after tax of £550,000 (1998: £270,000) and on 15,732,038 shares (1998: 7,885,280), being the weighted average number of shares in issue *during the year which are eligible to receive the final dividend.*

There is no difference in the current year between the basic return per Ordinary share and the fully diluted return per Ordinary share. In the prior year 2,759,418 Ordinary shares had been issued but were not eligible to receive the final dividend.

8. Investment Portfolio

a) Fixed assets

The movement in the year on venture capital investments was as follows:	£000
Valuation at beginning of year	4,194
Additions at cost	4,490
Movement on valuation (net)	53
Disposals	(781)
Valuation at 31st March 1999	7,956

The disposals during the year were as follows:
Freshroast Coffee Co. Ltd redeemed 55,000 Preference shares for a consideration of £63,250, resulting in a realised profit of £8,250.

The Company sold 120,000 Ordinary shares in Policymaster Plc, an AIM listed investment which had been purchased during the year, for a net consideration of £164,000, resulting in a realised profit of £44,000.

The Company received £244,000 from the agreed takeover of Pycraft & Arnold Holdings Plc, an AIM listed investment, by Fishers International Plc. The original cost of the investment was £200,000 with a valuation at 31st March 1998 of £373,000.

The Company disposed of its entire investment in Goldstar (Natural Fruit Juices) Limited for nominal consideration on 22nd January 1999 shortly before this company was placed into receivership. The original cost of the investment was £375,000. At 31st March 1998 it was valued at £225,000.

b) Current assets

The movement in the period on UK Government stocks was as follows:	£000
Valuation at beginning of year	6,527
Additions at cost	6,627
Disposal proceeds	(6,499)
Realised gain	86
Unrealised gain	138
Valuation at 31st March 1999	6,879

UK Government stocks held at 31st March 1999 are classified as current assets due to their use as temporary holdings whilst venture capital investment opportunities arise.

9. Investments

The cost and carrying value of investments held at 31st March 1999, all of which are registered in England and Wales, are detailed as follows:-.

	1999			1998		
	Cost	**Valuation**		Cost	Valuation	
	£000	**£000**	**%**	£000	£000	%
Unquoted investments:						
Freshroast Coffee Co. Limited						
Ordinary shares	**5**	**111**		5	143	
12% Cumulative Redeemable Preference shares	**-**	**-**		55	63	
Debenture loan (currently 2% over bank base rate)	75	75		75	75	
	80	**186**	**1.2**	135	281	2.6

NOTES TO THE FINANCIAL STATEMENTS

9 Investments (continued)

	1999			1998		
	Cost	**Valuation**		Cost	Valuation	
	£000	**£000**	**%**	£000	£000	%
RMF Engineering Limited						
Ordinary shares	**90**	**319**		90	319	
11% Cumulative Redeemable 'B' Preference shares	**210**	**210**		210	210	
	300	**529**	**3.4**	300	529	4.8
Morgan Machine Knife Limited						
Ordinary shares	**90**	**278**		90	90	
10½% Cumulative Redeemable Preference Shares	**260**	**260**		260	260	
	350	**538**	**3.5**	350	350	3.2
Goldcrest Homes Plc						
Convertible debenture loan (9% over bank base rate subject to a maximum of 16%)	**500**	**583**	**3.7**	500	500	4.5
G B International Limited						
'B' Ordinary shares	**133**	**100**		133	133	
11% Cumulative Redeemable Preference shares	**133**	**133**		133	133	
Debenture loan (5% over bank base rate subject to minimum of 11%)	**134**	**134**		134	134	
	400	**367**	**2.4**	400	400	3.6
Ray Engineering Company Limited						
Ordinary shares	**82**	**82**		60	60	
10.5% Cumulative Redeemable Preference shares	**453**	**453**		375	375	
	535	**535**	**3.4**	435	435	4.0
International Resources Group Limited*						
Ordinary shares	**39**	**39**		39	39	
11% Debenture loan	**561**	**561**		561	561	
* In addition, the Company holds one Redeemable Preference Share of £1	**600**	**600**	**3.8**	600	600	5.5
CCCoutdoors Limited						
Ordinary shares	**100**	**100**		-	-	
11½% Cumulative Redeemable Preference shares	**200**	**200**		-	-	
11½% Debenture loan	**200**	**200**		-	-	
	500	**500**	**3.2**	-	-	-
Rainbow Garden Products Limited						
Ordinary shares	**43**	**43**		-	-	
11% Cumulative Redeemable Preference shares	**382**	**382**		-	-	
	425	**425**	**2.7**	-	-	-

9 Investments (continued)

	1999			1998		
	Cost	Valuation		Cost	Valuation	
	£000	£000	%	£000	£000	%
TIB Plc						
Ordinary shares	100	100		-	-	
9% Cumulative Redeemable Preference shares	400	400		-	-	
	500	500	3.2	-	-	-
Denison Mayes Group Limited						
Ordinary shares	125	94		-	-	
15% Cumulative Redeemable Preference shares	275	206		-	-	
15% Debenture Loan	300	225		-	-	
	700	525	3.4	-	-	-
Eagle Marketing Limited						
Ordinary shares	200	200		-	-	
10½% Cumulative Redeemable Preference shares	800	800		-	-	
	1,000	1,000	6.4	-	-	-
Images at Work Limited						
Ordinary shares	205	205		-	-	
10½% Cumulative Redeemable Preference shares	410	410		-	-	
	615	615	3.9	-	-	-
Total excluding AIM quoted investments	6,505	6,903	44.2	2,720	3,095	28.2
Ordinary shares held in AIM quoted companies						
CRC Plc	242	268	1.7	94	168	1.5
Bond International Software Plc	150	216	1.4	150	202	1.8
SBS Group Plc	100	71	0.5	100	131	1.2
Honeycombe Leisure Plc	201	283	1.8	-	-	-
Connaught Plc	180	215	1.4	-	-	-
Total AIM quoted investments	873	1,053	6.8	344	501	4.5
Investments held at 31st March 1998 and disposed of in year						
Goldstar (Natural Fruit Juices) Limited	-	-		375	225	2.0
Pycraft & Arnold Plc	-	-		200	373	3.4
	-	-	-	575	598	5.4
Total venture capital investments portfolio	7,378	7,956	51.0	3,639	4,194	38.1

9 Investments (continued)

	1999			1998		
	Cost	**Valuation**		Cost	Valuation	
	£000	**£000**	**%**	£000	£000	%
Government stocks						
6% Treasury stock 1999	-	-		2.957	2,975	27.1
9½ Treasury stock 1999	-	-		1,019	1,019	9.3
7% Treasury stock 2001	**3,044**	**3,154**	**20.2**	2,505	2,533	23.0
7% Treasury stock 2002	**1,578**	**1,639**	**10.5**	-	-	
11½% Treasury stock 2001/004	**1,123**	**1,124**	**7.2**	-	-	
3½% Funding stock 1999/04	**950**	**962**	**6.2**	-	-	
Total investment in Government stocks	**6,695**	**6,879**	**44.1**	6,481	6,527	59.4
Total financial asset investments	**14,073**	**14,835**	**95.1**	10,120	10,721	97.5
Cash		**457**	**2.9**		794	7.2
Other net current assets		**312**	**2.0**		(519)	(4.7)
Shareholders' funds		**15,604**	**100**		10,996	100

10. Financial Instruments

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

Investments are made in a combination of equity and fixed and floating rate financial instruments so as to comply with venture capital trust legislation and provide both an adequate running yield and future capital growth. The fixed rate returns are linked to bank base rate and in certain circumstances are subject to minimum or maximum rates.

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

At 31st March 1999, the financial assets, by value, excluding cash of £457,000 and short term debtors and creditors, comprised:

	1999		1998	
	£'000	**%**	£000	%
Qualifying venture capital investments				
Ordinary shares	**2,724**	**18**	1,658	15
Preference shares	**3,454**	**23**	1,266	12
Debenture loan stock	**1,778**	**12**	1,270	12
	7,956	**53**	4,194	39
Government stocks	**6,879**	**47**	6,527	61
	14,835	**100**	10,721	100

10 Financial Instruments (continued)

The analysis by interest rate risk was as follows:

	1999		1998	
	£'000	**%**	£000	%
Qualifying venture capital investments				
Fixed interest investment assets	**4,440**	**30**	1,827	17
Floating rate investment assets	**792**	**5**	709	7
Equity investments	**2,724**	**18**	1,658	15
	7,956	**53**	4,194	39
Fixed interest Government stocks	**6,879**	**47**	6,527	61
	14,835	**100**	10,721	100

The weighted average interest rate on fixed rate financial assets in venture capital investments held at 31st March 1999 was 11%. The weighted average period for which these rates applied was 4 years, 7 months (1998: 10.7% and 5 years, 4 months). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 8.7% with a weighted average period of 4 years (1998: 7.8% and 2 years, 9 months).

The Company has a borrowing facility with The Royal Bank of Scotland Plc of £3.75m under an agreement dated 11th February 1998. This facility is available for the Company to utilise in making venture capital investments once shareholders' funds have been fully invested. At 31st March 1999 there were no borrowings under this facility.

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

11. Significant Interests

At 31st March 1999 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	Description of shares held		Percentage of class held by the Company	Percentage of class held by commonly managed funds
Freshroast Coffee Co Limited	5,271	Ordinary	13%	13%
RMF Engineering Limited	40,000	Ordinary	25%	-
	210,000	'B' Preference	100%	-
GB International Limited	1,424,936	'B' Ordinary	67%	-
	133,334	Preference	67%	-
Ray Engineering Company Limited	82,000	Ordinary	37%	-
	453,000	Preference	100%	-
CCCoutdoors Limited	25,000	Ordinary	20%	-
	200,000	Preference	100%	-
Rainbow Garden Products Limited	42,500	Ordinary	29%	-
	382,500	Preference	100%	-

11. Significant Interests (continued)

Company	Description of shares held		Percentage of class held by the Company	Percentage of class held by commonly managed funds
Denison Mayes Group Limited	125,000	Ordinary	45%	-
	275,000	Preference	100%	-
Eagle Marketing Limited	42,826	Ordinary	30%	-
	800,000	Preference	100%	-
Images at Work Limited	75,000	Ordinary	33%	-
	410,000	Preference	100%	-

A description of the principal activity of these companies can be found in the Investment Adviser's Review.

12. Debtors

	1999	1998
	£000	£000
Amounts receivable within one year:		
Prepayments and accrued income	**276**	291
Advance corporation tax recoverable	**-**	36
Tax recoverable	**189**	99
	465	426

13. Creditors

	1999	1998
	£000	£000
Amounts payable within one year:		
Accrued expenses	**56**	147
Advance corporation tax	**59**	36
Proposed dividend	**38**	144
Consideration for unallotted share capital	**-**	618
	153	945

The average number of trade creditor payment days during the period was 28 (1998: 21).

14. Deferred Tax

There are no amounts provided or unprovided in respect of deferred tax.

15. Called-up Share Capital

	1999		1998	
	Authorised	**Allotted, Called-up and Fully paid**	Authorised	Allotted, Called-up and Fully paid
	£000	**£000**	£000	£000
Ordinary shares of 10p Authorised 18,000,000 – Issued 15,839,838 (1998: 10,979,493)	**1,800**	**1,584**	1,800	1,098

15 Called-up Share Capital (continued)

The movement in the year was as follows:

	Date	Share Capital £000	Share Premium £000
At 1st April 1998		1,098	9,481
Allotments			
4,560,537 at £1.05	April 98	456	4,333
273,808 at £1.05	May 98	28	260
32,000 at £1.05	June 98	3	30
		487	4,623
Expenses of share issue		-	(289)
		487	4,334
Purchases			
6,000 at 93p	July 98	(1)	-
At 31st March 1999		1,584	13,815

16. Reserves

a) The movement in the year was as follows:-

	Share premium £000	Capital redemption £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000
Beginning of year	9,481	2	(196)	601	10
Issue of shares	4,623				
Expenses of share issue	(289)				
Valuation of investment portfolio			(279)	22	
Valuation of current asset investments			86	138	
Capital expenses			(235)		
Tax effect of capital items			64		
Purchase of own shares		1			(6)
Retained revenue for period					(3)
At 31st March 1999	13,815	3	(560)	761	1

b) Net (losses)/gains on Investments

	1999			1998		
	Realised £000	**Unrealised £000**	**Total £000**	Realised £000	Unrealised £000	Total £000
Venture Capital investments	**(279)**	**22**	**(257)**	25	555	580
Government Stocks	**86**	**138**	**224**	(33)	60	27
	(193)	**160**	**(33)**	(8)	615	607

17. Reconciliation of Movements in Shareholders' Funds

	1999 £000	1998 £000
Beginning of year	**10,996**	4,582
Net proceeds of share issues	**4,821**	5,890
Total return after tax	**346**	792
Purchase of own shares	**(6)**	(21)
Dividends paid and payable	**(553)**	(247)
Balance at 31st March 1999	**15,604**	10,996

18. Net Asset Value per Ordinary Share

The net asset value per Ordinary share is calculated on attributable assets of £15,604,000 (1998: £10,996,000) and 15,839,838 shares in issue at the year end (1998: 10,979,493).

19. Reconciliation of Net Revenue on Ordinary Activities before Taxation to Net Cash Inflow from Operating Activities

	1999 £000	1998 £000
Net revenue on ordinary activities before taxation	**803**	339
Decrease (increase) in prepayments and accrued income	**15**	(28)
(Decrease) increase in accruals	**(91)**	135
Investment advisory fees charged to capital reserve	**(235)**	(108)
Tax deducted at source on investment income	**(178)**	(111)
Net cash inflow from operating activities	**314**	227

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

	1999 £000	1998 £000
Decrease in cash in the period	**(337)**	(936)
Cash outflow from increase in liquid resources	**128**	4,840
Changes in net funds resulting from cash flows	**(209)**	3,904
Other non-cash items:		
Movement in value of fixed interest quoted investments	**224**	27
Net funds at beginning of period	**7,321**	3,390
Net funds at 31st March 1999	**7,336**	7,321

21. Analysis of Net Funds

	31st March 1998 £000	Cash flow £000	Other non cash changes £000	31st March 1999 £000
Cash	794	(337)	-	457
Fixed interest quoted investments	6,527	128	224	6,879
	7,321	(209)	224	7,336

22. Financial Commitments

A further investment of £750,000 and not reflected in these accounts had been approved by the Board of Directors at 31st March 1999 (1998: £150,000). This remains uninvested at the date of this report. Since the year end further investments totalling £1,450,000 have been approved by the Board of which £1,000,000 has now been invested.

23. Related Party Transactions

Mr Leach and Mr Cammerman are Chairman and Managing Director respectively of Yorkshire Fund Managers Limited, the Investment Adviser to the Company, and a wholly owned subsidiary of Yorkshire Enterprise Limited which held 3.3% of the issued share capital of British Smaller Companies VCT plc at 31st May 1999. Mr Leach and Mr Cammerman are Chairman and Investment Director respectively of Yorkshire Enterprise Limited. Neither Mr Leach nor Mr Cammerman have any beneficial shareholding in either Yorkshire Fund Managers Limited or Yorkshire Enterprise Limited.

During the year Yorkshire Fund Managers Limited received remuneration amounting to £304,000 (1998: £158,000) in respect of services provided in accordance with the Investment Advisory Agreement dated 28th February 1996. At 31st March 1999 an amount of £599 (1998: £1,297) was owing to Yorkshire Fund Managers Limited in respect of costs paid on the Company's behalf.

Under the Subscription Rights Agreement dated 28th February 1996 Yorkshire Fund Managers Limited has a performance-related incentive, structured so as to entitle it to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to shareholders. However, such incentive will only apply in the event that the return to Shareholders (after taking account of the effect of the incentive) is at least equal to the movement in the FT-SE Actuaries All-Share Index over the period to April 2001, calculated on a total return basis.

24. Post Balance Sheet Events

On 7th April 1999 the Company purchased 7,742 Ordinary shares in International Resources Group Limited from a departing director shareholder for a consideration of £3,871.

On 24th May 1999 the Company received formal notification from Goldcrest Homes Plc of the intention to exercise its option to repay the debenture loan of £500,000 in full on 28th November 1999, together with the accumulated premium at that date.

On 5th June 1999 the Company invested £1,000,000 in First Stop Stationery Limited. The investment was by way of £200,000 in Ordinary shares and £800,000 in 5% Cumulative Redeemable Preference shares.