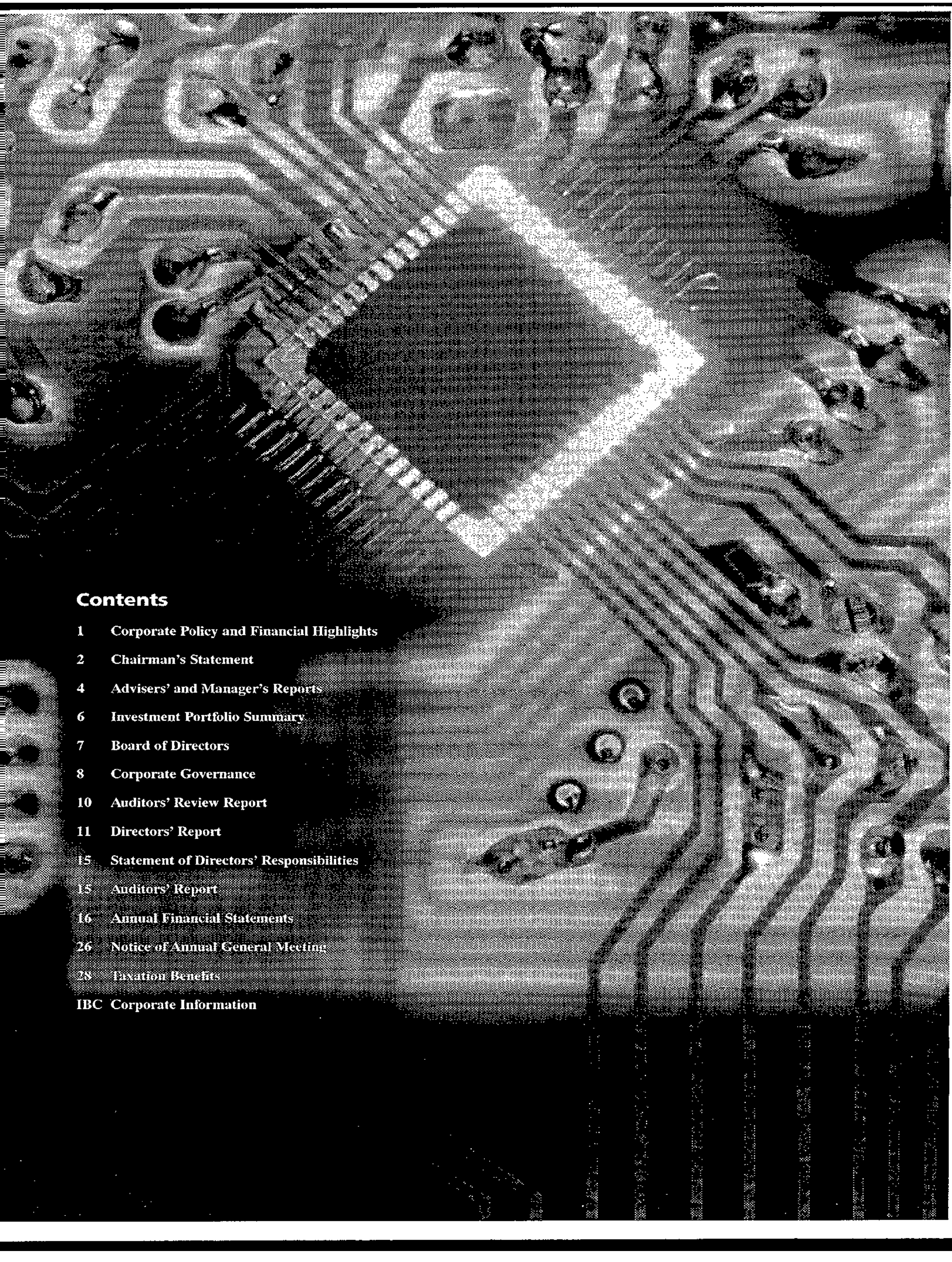
COMPANY REGISTRATION NUMBER

3421340

Foresight Technology VCT plc

Report and Accounts

For the period ending 30 September1998



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Corporate **Policy** and **Financial Highlights**

for the period ended 30 September 1998

Objectives

The objective of Foresight Technology VCT plc ("Foresight") is to provide private investors with an attractive return from a portfolio of investments in fast-growing UK technology-based companies - companies whose products or services depend to a significant extent on the application of scientific or technological skills or knowledge, or whose activities embrace a significant technology component as a major source of competitive advantage.

Venture Capital Trust Status

Foresight has been granted provisional approval under section 842AA of the Income and Corporation Taxes Act 1988, and the Directors intend to continue the business of the Company so as to comply with that section.

Performance Summary

	30 September 1998	17 November 1997
Ordinary share - capital values		
Net asset value per ordinary share (before proposed dividend)	**97.72p**	94p
Total assets (before proposed dividend)	**£10,695,597**	£9,566,098
Revenue and Dividend (period 17 November 1997 to 30 September 1998)		
Earnings per Ordinary Share	**3.14p**	
Dividend per Ordinary Share (net)	**2.90p**	
Dividend per ordinary share (gross)	**3.63p**	
Annualised gross equivalent	**3.91p**	

Chairman's **Statement**

Peter Dicks
Chairman

" The Company's aim is to provide its shareholders with an attractive return from a portfolio of investments in fast growing technology-based companies in the United Kingdom. "

It is a pleasure to present the first annual report and financial statements of Foresight Technology VCT plc.

You will remember that the public offer launched on 1 October 1997 at 100p per share raised, before expenses, £10,176,700. A small placing raised an additional £442,000 in June 1998, and a further small placing raised £327,000 in August 1998, resulting in total capital raised to date of £10,945,700. The costs of these issues represented 6% of the funds raised.

The results for the period to 30 September 1998 are set out in the following pages and show a return (after tax) attributable to shareholders of £319,140. The net asset value per share at 30 September 1998 (before the recommended dividend) was 97.72p compared with 94p (net of issue expenses) immediately following the share issue. This compares with a net cost of 80p to those qualifying shareholders who were able to recover income tax relief of 20% on their original subscription.

Dividend

The Board recommends a dividend of 2.9p per share for the period ended 30 September 1998 on which tax of 0.725p will be reclaimed by the Company on behalf of all shareholders entitled to the gross payment. In order to maximise shareholders' returns the Company will pay the gross amount to shareholders without any deferment and will recoup the additional payment when credits are received from the Inland Revenue.

This means that the distribution in respect of this period is 3.625p per share for shareholders entitled to the gross payment and on an annualised basis represents a gross yield of 3.91% on the issue price of the shares. Shareholders should note that as the Company's cash becomes invested its income is likely to decline and it may not be in a position to pay a dividend in future years.

Investment position

Initially, the proceeds of the share issues were invested in a portfolio of cash deposits managed by Cazenove Fund Management Limited. As stated in the original prospectus, it is intended that 80% of funds or approximately £8.23 million will be invested in UK based venture capital investments primarily in the technology sector.

Chairman's **Statement**

As at 30 September 1998, £1.53 million was invested in three companies and since then a further £1.5 million has been invested in two more companies. Together these investments represent an aggregate investment of approximately 37% of the Venture Capital Fund. This rate of investment during the period under review, together with several additional investments sourced during the same period and anticipated to be completed during the next few months lead your advisers, VCF Partners, and the Board to conclude that the Company is on target to achieve its Venture Capital Trust qualification investment target of having at least 70% by value invested in shares and securities by 1 October 2000. I believe we have, therefore, made a good start to our investment programme notwithstanding the unsettled conditions which have prevailed in various economies throughout the world in the period since the Fund's inception. Details of investments made during the period are given in the Advisers' Report. You will also note that your advisers are encouraged by the quality and number of investments which they have seen to date.

The investments held by the Company have been valued in accordance with the British Venture Capital Association guidelines under which unquoted investments are not normally revalued above cost for at least 12 months after the date of acquisition. The investments which are traded on AIM and the fixed interest securities are carried at market value. We will, in any event, always attempt to follow a consistent and prudent valuation policy.

The AIM listed investments have shown encouraging capital appreciation but it is worth remembering that having regard to the Fund's investment objectives, an investment in Foresight should be considered a long term investment.

In closing, I believe we have made a good start to our investment programme and would like to thank all shareholders for their support in 1998.

I very much hope to have the pleasure of welcoming you to the Annual General Meeting on 29 January 1999.

Peter Dicks

Chairman

4 January 1999

Advisers' and **Manager's Reports**

The Venture Capital Fund

VCF Partners advise the Company in respect of investments made within the Venture Capital Fund. Foresight has made three investments in the period to 30 September 1998 at a cost of £1,530,000. This was the first period in which funds were available for investment in qualifying companies for VCT purposes. Two of the investments, Bond International plc ("Bond") and Policy Master Group plc ("Policy Master"), are traded on AIM and have seen an appreciation in valuation since investment. The other investment is in an unquoted company called Sapphire Group Limited ("Sapphire").

Bond specialises in the design, development and supply of computer software, hardware and related services to the recruitment and personnel industries. The company's principal product "ADAPT" is an established computer software package that automates the business operations of recruitment companies and is now being very successfully rolled out in the US market.

Sapphire owns the long established "DataEase" family of computer database software products, which have a worldwide base of several hundreds of thousands of users. The Company is now introducing new technology that allows existing DataEase users to update their applications for client/server operation, Internet enablement and Year 2000 compliance.

Policy Master is a leading supplier of software and services to the insurance industry. The company has developed a suite of software solutions for both broking and underwriting, and supplies a range of services including training, consultancy and maintenance to a wide customer base.

Investments

Company	**Type**	**Invested**	**Valuation as at 30 September 1998**	**Nature of business**
Bond International Software plc	AIM	£349,999	£497,999	Recruitment software
Policy Master Group plc	AIM	£180,000	£240,000	Insurance software
Sapphire Group Limited	Unquoted ("B" Ordinary Shares)	£600,000	£600,000	Database tools software
	(10% fixed rate loanstock maturing 31 July 2003)	£400,000	£400,000	
Total		**£1,529,999**	**£1,737,999**	

Since the year-end Foresight has made two further unquoted investments totalling £1,500,000.

£1,000,000 was invested in Unisoft Holdings Limited which develops and sells software products principally to the distribution trade sector; and £500,000 was invested in Actimax plc – a distributor and installer of digital telephone systems.

Advisers' and **Manager's Reports**

The balance of the Venture Capital Fund is managed by Cazenove Fund Management Limited pending investment in venture capital investments.

Dealflow has been strong throughout the period and continues to be so. There are a number of transactions at relatively advanced stages of appraisal and due diligence which we believe will complete in the second quarter of 1998/99. These transactions will enable the Venture Capital Fund to diversify further the portfolio spread in UK technology-based companies.

In summary, we believe that Foresight is making good progress investing in quality technology-based companies. The investment pace is expected to increase in the first half of 1999 as we complete a number of the unquoted opportunities sourced in the last six months.

The Fixed Interest Fund

The fixed interest portfolio was established with the net proceeds of the Company's share issues as they were credited in late November and December 1997 and is managed by Cazenove Fund Management Limited. These funds were held in cash deposits throughout the period. Apart from the amount required to finance venture capital investments before the end of the calendar year the balance of the cash was invested in a one year UK government stock in October 1998. This was in the expectation that the interest on the cash deposit would fall rapidly over the coming months, undoing the income advantage of holding cash. This action also reduced the proportion of the Company's income being earned on interest from cash deposits.

Investment **Portfolio Summary**

as at 30 September 1998

Venture Capital Fund	**Cost £000**	**Valuation £000**	**Valuation as a % of the portfolio**
AIM			
Bond International Software plc	350	498	4.66
Policy Master Group plc	180	240	2.25
Unquoted			
Sapphire Group Limited			
Shares	600	600	5.62
Loan	400	400	3.75
	1,530	1,738	16.28
Fixed Interest Fund			
Monies held pending investment	8,936	8,936	83.72
Total investments and monies held	10,466	10,674	100.0
Net current liabilities		(296)	
Total assets less current liabilities		10,378	

Board of **Directors**

Peter Frederick Dicks, aged 56 ***(Chairman)***
Peter Dicks was a founder director in 1973 of Abingworth plc, a successful venture capital company. He is currently a director of a number of quoted and unquoted companies, including Action Computer Supplies Holdings plc, Henderson Technology Trust plc, Personal Number Company plc and Standard Micro-Systems Incorporated, a US-NASDAQ quoted company.

Antony Richard Diment, aged 53; PhD Physics
Antony Diment is an experienced venture capitalist. At 3i Ventures he was responsible for investment in the information technology sector and as an executive director of Gresham Trust plc was responsible for a portfolio of fifteen unquoted companies. He is a non-executive director of Enterprise Venture Capital Trust plc, Solvera Plc formerly O.M.I. International plc and was until September 1998 a Director of Radstone Technology plc.

Nigel William Horne, aged 58; BSc Electronics, PhD Mathematics
Nigel Horne has had a career in telecommunications and computer manufacturing, culminating in consulting and business research. He managed most of GEC's telecommunications businesses before becoming a board member of STC plc in 1983, ICL plc in 1984 and LSI Logic Limited in 1985. He is presently chairman of Alcatel UK Limited and holds a number of non-executive directorships.

David John Royds, aged 38
David Royds is chairman of Matrix-Securities Limited and managing director of Matrix-Data Limited, a sister company whose business is specialist financial research and database management. Prior to 1985 he worked at Laing & Cruickshank, Robert Wigram & Co and the Financial Times.

Peter David English, aged 56; BSc Electrical Engineering
Peter English has worked in a variety of engineering and marketing management roles in the UK and USA. His experience includes telecommunications (NORTEL) and semi-conductors (GEC Semi-conductors). He joined 3i Ventures in 1982 and in 1984 co-founded VCF Partners.

Bernard William Fairman, aged 49; BA Industrial Economics
Bernard Fairman trained as an economist and in 1970 joined Panmure Gordon as an oil investment analyst. In 1973 he joined Edward Bates, a specialist investment bank. On leaving in 1976 he gained investment experience at various small oil and electronic companies. He joined 3i Ventures in 1981 and co-founded VCF Partners in 1984.

Corporate **Governance**

The Directors of Foresight confirm that the Company has taken the appropriate steps to enable it to comply with the Principles of Good Governance and Code of Best Practice ("the Combined Code") initially drafted by the Committee on Corporate Governance chaired by Sir Ronald Hampel, together with the related Listing Rules for the year ending 30 September 1999. Except as noted below, the requirements of the Code of Best Practice contained in the Cadbury Committee's report on the Financial Aspects of Corporate Governance ("the Code") were complied with throughout the period.

The Company's Auditors, KPMG Audit Plc, have reviewed this statement in accordance with guidelines issued by the Auditing Practices Board and their review report is set out on page 10.

The Board

The Company has a board of six non-executive Directors, four of whom are independent of the investment manager and advisers. The Board is responsible to shareholders for the proper management of the Company and meets at least quarterly. It has recently formally adopted a schedule of matters that are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues.

Board committees

The Board has recently adopted formal terms of reference for four standing committees which make recommendations to the Board in specific areas.

The Investment Committee comprises four directors, Peter Dicks (Chairman), Tony Diment, Nigel Horne and David Royds. The Investment Committee meets as necessary and is responsible for deciding which of the venture capital investments proposed by VCF Partners should be accepted by the Company.

The Audit Committee, Remuneration Committee and Nomination Committee each comprises three directors, Tony Diment (Chairman), Peter Dicks and Nigel Horne.

The Audit Committee, which meets at least twice a year, is responsible for reviewing the half-year and annual financial statements before their submission to the Board and for monitoring the effectiveness of the Company's internal control systems.

The Remuneration Committee (which will have responsibility for reviewing the remuneration of the Directors) and the Nomination Committee (which will have responsibility for proposing candidates for appointment to the Board) will meet as and when necessary.

Internal financial controls

The Directors of Foresight have overall responsibility for the Company's system of internal financial control. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed and by their nature can provide reasonable but not absolute assurance against misstatement or loss.

Corporate **Governance**

The Board's appointment of Matrix-Securities Limited as company accountant has delegated much of the financial administration to Matrix-Securities Limited which has an established system of financial control, including internal financial controls, to enable that proper accounting records are maintained and that financial information for use within the business and for reporting to shareholders is accurate and reliable and that the Company's assets are safeguarded.

Martineau Johnson provide legal advice and assistance in relation to the maintenance of VCT tax status and the operation of the agreements entered into with VCF Partners and Cazenove and the application of the venture capital trust legislation to any company in which the Company is proposing to invest. Roger William Blears, a partner in Martineau Johnson is appointed by the Board as company secretary with responsibilities relating to the administration of the non financial systems of internal control. All directors have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Pursuant to the terms of their appointment, VCF Partners advise the Company on venture capital investments. Martineau Johnson, in their capacity as solicitors to the Company, have physical custody of documents of title relating to equity investments.

The Company's portfolio of fixed interest investments is managed under a separate agreement with Cazenove Fund Management Limited which has direct responsibility to the Board in this respect and Cazenove & Co has physical custody of the investments comprised in this portfolio.

In the light of the responsibilities retained by the Board and its Committees and of the responsibilities delegated to VCF Partners, Cazenove Fund Management Limited, Matrix-Securities Limited, Martineau Johnson and the company secretary, the Company has not appointed a chief executive officer. The provisions of the Combined Code which relate to the division of responsibilities between a chairman and a chief executive officer are, accordingly, not applicable to the Company.

The Audit Committee has carried out a review of the effectiveness of the system of internal financial control, together with a review of the operational and compliance controls and risk management, as it operated during the year and reported its conclusions to the Board which was satisfied with the outcome of the review.

Going concern

After due consideration, the Directors believe that the Company has adequate resources for the foreseeable future and that it is appropriate to apply the going concern basis in preparing the financial statements.

Auditors' **Review Report**

To Foresight Technology VCT plc on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements on pages 8 and 9 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures, or on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal control on pages 8 and 9 and going concern on page 9, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 8 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants

2 Cornwall Street
Birmingham

4 January 1999

Directors' **Report**

The Directors present their first annual report together with the audited financial statements of the Company for the period from incorporation to 30 September 1998.

Principal activity and status

The principal activity of the Company is the making of investments in unquoted or AIM-listed companies in the UK. Foresight is an investment company as defined by section 266 of the Companies Act 1985. It has been granted provisional approval by the Inland Revenue under section 842AA of the Income and Corporation Taxes Act 1988 as a Venture Capital Trust. The Ordinary Shares and Warrants of the Company were first admitted to the Official List of the London Stock Exchange on 17 November 1997.

The Directors have managed and 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.

A review of the Company's business during the period and consideration of its future development and prospects are contained in the Chairman's Statement.

Results

	1998 £'000
Capital return (after tax relief of £32,000) transferred to reserves	87
Revenue return, before taxation	404
Taxation	(85)
Revenue return for the period	319
Dividend recommended	(317)
Transfer to revenue reserves	2

Dividend

The Directors recommend a first and final dividend of 2.9p (net of tax) per Ordinary Share. This dividend will be payable to shareholders on the register of members on 15 January 1999 ("the Record Date") and the shares will trade ex-dividend from 11 January 1999. This dividend should be paid on 29 January 1999 subject to the approval of this dividend by shareholders at the Annual General Meeting.

Issues of shares

Following an Offer for Subscription by a prospectus dated 1 October 1997, the Company issued 10,176,700 Ordinary Shares of 1p each and 2,035,340 Warrants between 17 November 1997 and 18 December 1997. Pursuant to two small placings the Company issued a further 769,000 Ordinary Shares of 1p each and 153,800 Warrants between 25 June 1998 and 27 August 1998. Details of these issues are given on pages 23 and 24.

CREST

The Company has not yet registered with CREST as there have been no significant transfers of shares in the last nine months and it is not anticipated at the moment that there will be any significant trading in the Company's shares in the near future. Shareholders should be aware of the fact that a disposal of their Ordinary Shares (but not of their Warrants) before the fifth anniversary of their allotment may lead to a loss of tax relief obtained by their investment in the Company.

Directors' **Report**

Directors

The Directors who held office at the end of the year and their interests in the issued Ordinary Shares of 1p each of the Company were as follows:

		30 September 1998		19 August 1997 (or date of appointment if later)	
	Date of Appointment	**Number of Ordinary Shares**	**Redeemable Non-Voting Shares**	Number of Ordinary Shares	Redeemable Non-Voting Shares
Peter F Dicks	22 August 1997	**20,000**	–	–	1,000,000
Antony R Diment	22 August 1997	**5,000**	–	–	1,000,000
Nigel W Horne	25 September 1997	**20,000**	–	–	1,000,000
David J G Royds	8 September 1997	**20,000**	–	–	1,000,000
Peter D English	22 August 1997	**80,000**	–	–	1,000,000
Bernard W Fairman	22 August 1997	**36,700**	–	–	1,000,000

There have been no changes in the Directors' share interests between the year end and the date of this report.

Biographical notes on the Directors are given on page 7.

None of the Directors has a contract of service with the Company.

David Royds and Bernard Fairman retire by rotation at the 1999 Annual General Meeting of the Company and, being eligible, offer themselves for reappointment.

Meaujo Incorporations Limited and Philsec Limited, both in-house company formation agents of Martineau Johnson, were appointed as directors of the Company on the 19 August 1997 (the date of incorporation), and they resigned on the 22 August 1997. John Lythall was appointed as a director on 22 August 1997 and by agreement resigned on 5 September 1997 due to other commitments arising from his position as managing director of IS Solutions plc which was admitted to the AIM in September 1997.

With the exception of Peter English, Bernard Fairman and David Royds, no Director has an interest in any contract to which the Company is a party. Peter English and Bernard Fairman, in their capacity as VCF Partners, act as investment advisers to the Company in respect of its venture capital investments and received fees of £189,868 in the period. David Royds is the Chairman of Matrix-Securities Limited which acts as accountant to the Company and during the year received fees of £20,885 in respect of this appointment. Matrix-Securities Limited also acts as the promoter of the Company and in respect of this appointment received commission of £84,069 in respect of the public offer in 1997 and £11,485 in respect of the placings in June and August 1998. Matrix-Securities Limited are also parties to the Conditional Warrant Rights Agreement described in Note 4 to the financial statements.

Management:

VCF Partners have been appointed as investment advisers in respect of venture capital investments. The principal terms of the Company's advisory agreement with VCF Partners are set out in Note 4 to the financial statements.

Cazenove Fund Management Limited is the manager of the Company's gilt and sterling-denominated fixed interest portfolio. The principal terms of the Company's management agreement with Cazenove Fund Management Limited is set out in Note 4 to the financial statements.

Matrix-Securities Limited acts as accountant to the Company responsible for the financial administration of its affairs.

Roger William Blears, a partner in Martineau Johnson, the Company's solicitors, acts as company secretary.

Directors' **Report**

VCT status monitoring

Foresight has retained Martineau Johnson as legal advisers on *inter alia,* compliance with legislative requirements. The Directors monitor the Company's VCT status at meetings of the Board.

Substantial shareholdings

As far as the Directors are aware there were no individual shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

Policy of paying creditors

The Company does not subscribe to a particular code but follows a policy whereby suppliers are paid by the due date and investment purchases are settled in accordance with the stated terms. At the period end there were no trade creditors.

Directors and officers liability insurance

The Company maintains a Directors and Officers liability insurance policy.

Year 2000

The Company's accounting records are maintained on computer by Matrix-Securities Limited. As the Year 2000 issue could potentially affect all the Company's accounting and other computer held records, the Directors have sought assurances from Matrix-Securities Limited that its system will be Year 2000 compliant. Matrix-Securities Limited is planning to have all of its business critical in-house electronic systems Year 2000 compliant by 31 December 1999. The Company will not bear the additional costs associated with ensuring that the computer systems used are Year 2000 compliant. The ability of other external service providers and of the companies in which investments are made, to cope with Year 2000 will be assessed by the Directors on an ongoing basis.

Auditors

KPMG Audit Plc have expressed their willingness to continue in office and resolutions to re-appoint them and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The Companies Act 1985 requires the Company to hold its first Annual General Meeting within 18 months of incorporation and on page 26 you will find a formal notice convening the first Annual General Meeting on 29 January 1999.

The following special business will be considered.

Resolution 6

Resolution 6 set out in the Notice of Annual General Meeting gives the Directors authorities to allot equity securities for cash without pre-emption rights; (i) first for the purposes of raising money which, in part, can be used to purchase the Company's own shares, this authority being limited to an issue of equity securities with an aggregate nominal value of up to but less than 10% of the Company's present issued share capital, and (ii) secondly, for the purposes of raising capital to be used generally for the purposes of the Company, this authority being limited to an allotment of equity securities with an aggregate nominal value of up to but less than 5% of the current issued ordinary share capital of the Company. These two authorities would last for fifteen months following the date on which the resolution is passed, or if earlier, the conclusion of the Annual General Meeting of the Company in 2000.

Resolution 7

Resolution 7 gives the Directors authority to make market purchases of the Company's own shares and warrants. Under this authority the Directors may purchase shares or warrants with an aggregate nominal amount up to but not exceeding 5% of the Company's current issued share capital and, when buying shares or warrants, the Directors cannot pay a price per share which is more than 105% of the average of the middle market quotations for an ordinary share or warrant taken from the London Stock Exchange Daily Official List for the five business days immediately before the day on which ordinary shares or warrants are purchased. This authority would last for twelve months from the passing of resolution 7.

Whilst generally the Company does not expect shareholders will want to sell their shares within five years of acquiring them, because this may lead to a loss of tax reliefs, the Directors anticipate that from time to time a shareholder may need to sell shares within this period. Front end VCT income tax relief and capital gains reinvestment relief is only obtainable by an investor who makes an investment in new shares issued by the Company. This means that an investor may be willing to pay more for new shares issued by the Company than he would pay to buy shares from an existing shareholder. Therefore, in the interests of shareholders, who may need to sell shares from time to time, the Company proposes to give the Directors the authorities described in Resolution 6 (i) and 7 above. These authorities, when taken together, enable the Directors to purchase shares from a shareholder and, effectively, to onsell those shares through the Company to a new investor with the potential benefit of full VCT tax reliefs. In making purchases the Company would deal only with member firms of the London Stock Exchange. Any new ordinary shares and warrants would be issued, subject to their listing on the London Stock Exchange, at a premium to the then prevailing net asset value per share of the Company's ordinary shares to ensure that existing shareholders are not disadvantaged.

Resolution 8

VCF Partners, Matrix-Securities Limited and Martineau Johnson were granted performance warrants in relation to the capital raised by the public offer in 1997. The Directors wish to provide the same performance-related incentive in respect of the investment of the capital raised in June and August 1998 and have entered into an agreement to grant such rights conditionally upon resolution 8 being passed. Details of these performance warrants are set out in Note 4 to the financial statements.

By order of the Board

Roger William Blears
Company Secretary

4 January 1999

Statement of **Directors' Responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- make judgments 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 accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors' **Report**

To the members of Foresight Technology VCT plc

We have audited the financial statements on pages 16 to 25.

Respective responsibilities of Directors and Auditors
As described above the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 or not 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 mis-statement, 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 as at 30 September 1998 and of the total return of the Company for the period from 19 August 1997 to 30 September 1998 and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham
4 January 1999

Statement of **Total Return**

(Incorporating the Revenue Account* for period ended 30 September 1998)

			1998	
		Revenue	**Capital**	**Total**
	Notes	**£**	**£**	**£**
Unrealised gains on investments	2	–	**208,000**	**208,000**
Income	3	**571,681**	–	**571,681**
Investment management fees	4	**(50,845)**	**(152,533)**	**(203,378)**
Other expenses	5	**(116,942)**	–	**(116,942)**
Return on ordinary activities before taxation		**403,894**	**55,467**	**459,361**
Tax on ordinary activities	7	**(84,754)**	**32,032**	**(52,722)**
Return on ordinary activities after tax for the financial period		**319,140**	**87,499**	**406,639**
Ordinary dividends on equity shares - final proposed (2.9p per Ordinary Share, equivalent to 3.63p gross)		(317,425)	–	(317,425)
Transfer to reserves	13	**1,715**	**87,499**	**89,214**
Return per Ordinary Share of 1p for the period	8	**3.14p**	**0.86p**	**4.00p**

Notes

All revenue and capital items in the above statement derive from continuing operations.

The Company has only one class of business and derives its income from investments made in shares, securities, loans and bank deposits.

*The revenue column in this statement is the profit and loss account of the Company for the period from 19 August 1997 to 30 September 1998.

There are no comparative figures since the Company was incorporated on 19 August 1997 and did not commence trading until 17 November 1997.

The notes on pages 19 to 25 form part of these financial statements.

Balance **Sheet**

as at 30 September 1998

	Notes	1998 £	£
Fixed assets			
Investments	2		**1,737,999**
Monies held on deposit pending investment			**8,936,087**
			10,674,086
Current assets:			
Debtors and prepayments	9	**168,251**	
Cash at bank		**16,077**	
		184,328	
Creditors: amounts falling due within one year	10	**(480,242)**	
Net current liabilities			**(295,914)**
Net assets			**10,378,172**
Capital and reserves			
Called up share capital	12		**109,457**
Share premium account	13		**10,179,501**
Capital reserve (realised)	13		**(120,501)**
Capital reserve (unrealised)	13		**208,000**
Revenue reserves	13		**1,715**
Equity Shareholders' Funds	14		**10,378,172**
Net asset value per Ordinary Share of 1p	15		**94.81p**

The financial statements were approved by the Directors on 4 January 1999 and are signed on their behalf by:

Peter Dicks
Nigel Horne
} *Directors*

The notes on pages 19 to 25 form part of these financial statements.

Cashflow **Statement**

for the period ended 30 September 1998

	Notes	1998 £	1998 £
Operating activities			
Deposit and similar interest received		560,111	
Investment management fees paid		(261,856)	
Other cash payments		(105,050)	
Net cash inflow from operating activities	16		193,205
Financial investment			
Purchase of unquoted investments, investments quoted on AIM, stocks and loans		(1,529,999)	
Net cash outflow from financial investment			(1,529,999)
Net cash outflow before use of liquid resources and financing			(1,336,794)
Management of liquid resources			
Movement in money market and other deposits			(8,936,087)
Financing	14		
Issue of Redeemable Non-Voting shares		12,500	
Issues of Ordinary Shares		10,945,700	
Redemption of Non-Voting shares		(12,500)	
Share issue expenses		(656,742)	
Net cash inflow from financing			10,288,958
Increase in cash	17		16,077

The notes on pages 19 to 25 form part of these financial statements.

Notes **to the Accounts**

for the period ended 30 September 1998

1 **Accounting policies**

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

a) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and in accordance with applicable Accounting Standards and with the Statement of Recommended Practice, 'Financial Statements of Investment Trust Companies'.

b) Investments

Listed investments and investments traded on AIM are stated at middle market prices as at 30 September 1998. Unlisted investments are stated at Directors' valuation. Investments in unlisted companies are valued in accordance with the British Venture Capital Association ("BVCA") guidelines. The Directors' policy in valuing unlisted investments is to carry them at cost except in the following circumstances:

- where a company's under performance against plan indicates a diminution in the value of the investment, provision against cost is made as appropriate in bands of 25%
- where a company is well-established and profitable, the shares may be valued by applying a suitable price-earnings ratio to that company's historic post-tax earnings. The ratio used is based on a comparable listed company or sector but discounted to reflect lack of marketability.
- where a value is indicated by a material arms-length transaction by a third party in the shares of a company.

Unquoted investments will not normally be revalued upwards for a period of at least twelve months from the date of acquisition.

Capital gains and losses on investments, whether realised or unrealised, are dealt with in the capital reserve.

c) Income

Dividends receivable on quoted equity shares are brought into account on the ex-dividend date. Dividends receivable on unquoted equity shares are brought into account when the Company's rights to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares and debt securities 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.

d) Expenses

All expenses are accounted for on an accruals basis. Expenses are charged wholly to revenue, with the exception of expenses incidental to the acquisition or disposal of an investment, which are included within the cost of the investment or deducted from the disposal proceeds as appropriate, and with the exception that 75% of the fees payable to VCF Partners and Cazenove Fund Management Limited are charged against capital.

e) Taxation

Advance corporation tax payable on dividends paid or provided for in the year is carried forward unless recoverability is considered to be uncertain.

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is considered probable that a liability will crystallise.

2 **Unrealised gains and losses on investments**

	Traded on AIM £	Unlisted Shares £	Qualifying Loans £	Total £
Purchases at cost	529,999	600,000	400,000	1,529,999
Unrealised appreciation	208,000	–	–	208,000
Cost/valuation at 30 September 1998	**737,999**	**600,000**	**400,000**	**1,737,999**

2 **Unrealised gains and losses on investments** *(continued)*

Investment	**Cost**	**Revaluation**	**Valuation at 30 September 1998**
	£	**£**	**£**
Bond International Software plc	349,999	148,000	497,999
Policy Master Group plc	180,000	60,000	240,000
Sapphire Group Limited – equity	600,000	–	600,000
Sapphire Group Limited – loan stock	400,000	–	400,000
At 30 September 1998	**1,529,999**	**208,000**	**1,737,999**

No income was received from these three investments in the year ending 30 September 1998. The shares of Bond International Software plc and Policy Master Group plc are quoted on the AIM. There were no disposals of unlisted investments or write downs of investments during the year. As at 30 September 1998 there were no commitments in respect of new or existing investments. As explained in the Advisers' Report on page 4, since the period end further unquoted investments totalling £1,500,000 have been made.

All the above companies are incorporated in England. Further to Note 11, the investment in Bond International Software plc amounts to 3.95% of its ordinary shares and the investment in Policy Master Group plc amounts to 0.85% of its ordinary shares.

3 **Income**

	1998
Interest receivable	**£**
– from qualifying loans	7,900
– from monies held pending investment	545,569
– from bank deposits	18,212
	571,681

4 **Investment advisers' and manager's fees**

	1998
	£
VCF Partners	189,868
Cazenove	13,510
	203,378

VCF Partners advise the Company on investments in qualifying companies under an agreement dated 29 September 1997. The agreement is for an initial period of five years and thereafter until their appointment is terminated by not less than one years notice in writing to expire at any time after the initial period.

VCF Partners receive an annual management fee of 2.5% in the periods to 30 September 2000 (and 2% thereafter) of the net assets within the Venture Capital Fund. For the purpose of the calculation of this fee, the size of the Venture Capital Fund is fixed at 80% of the total net asset value of the Company. The annual management fee is calculated and payable quarterly in advance together with any applicable VAT.

VCF Partners are responsible for external costs such as legal and accounting fees, incurred on transactions that do not proceed to completion ("abort expenses"). In line with common practice, VCF Partners retain the right to charge arrangement and syndication fees and directors or monitoring fees ("deal fees") to companies in which the Company invests, up to an annual sum (after deducting abort expenses) not exceeding 0.5% of the net assets within the Venture Capital Fund. Any surplus deal fees would be paid to the Company. As is customary in the Venture Capital industry VCF Partners will receive a performance related incentive as follows:

4 **Investment management fees** *(continued)*

Pursuant to a conditional warrant rights agreement dated 29 September 1997 (as amended by a supplemental agreement dated 7 December 1998 in respect of the capital raised between 25 June 1998 and 27 August 1998) VCF Partners, and (in consideration of their underwriting certain costs of the share issue in 1997/98) Matrix-Securities Limited and Martineau Johnson are entitled to be issued with performance warrants granting the right to subscribe at par for a number of ordinary shares (the "Shares Under Option calculated by reference to the Issue") which represents (in the aggregate) 15% of the sum of (i) the number of ordinary shares in issue immediately following the close of the public offer in 1997 ("the Offer") and the placings in June and August 1998 ("the Close of the Offer") plus (ii) the Shares Under Option calculated by reference to the Issue if:

* before the seventh anniversary of the Offer, cumulative dividend payments plus ACT liabilities on those dividends on each ordinary share subscribed under the Offer and the placings in June and August this year ("the Issue") are not less than 80p (being an amount equivalent to the net subscription price of the ordinary shares under the Issue after deducting 20% income tax relief) or

* at the seventh anniversary of the Offer cumulative dividend payments (plus ACT liabilities on those dividends) together with net realisations (after deducting losses) which have not by then, for whatever reason, been distributed, amounts to not less than 80p per ordinary share subscribed under the Issue; or

VCF Partners along with Matrix-Securities and Martineau Johnson will be entitled to be issued with performance warrants granting the right to subscribe at par for a reduced number of Shares Under Option calculated by reference to the Issue representing the equivalent of (in the aggregate) 12.5% of the sum of (i) the number of ordinary shares in Issue immediately following the Close of the Offer (ii) the reduced number of Shares Under Option calculated by reference to the Issue if:

* at any time after the seventh anniversary of the Offer, cumulative dividend payments (plus ACT liabilities on those dividends) together with net realisations (after deducting losses) which have not by then, for whatever reason, been distributed amount to not less than £1.25 per ordinary share subscribed under the Issue.

Cumulative dividends on each ordinary share subscribed under the Issue are deemed to include an amount equal to the cumulative dividends paid on ordinary shares issued under the Warrants divided by the number of ordinary shares issued under the Issue. In calculating net realisations attributable to each ordinary share subscribed under the Issue the equity share capital of the Company is treated as comprising only the ordinary shares subscribed under the Issue. Equivalent related incentive arrangements will also be granted in relation to the investment of the capital subscribed for ordinary shares issued under the Warrants issued pursuant to the Issue.

Investors receiving dividends before 6 April 1999 will receive cash distributions together with an amount equivalent to a 20% tax credit. After 5 April 1999 the position changes and investors will receive the cash distribution only. Although the income received will still be tax free, investors will suffer a decrease in the total cash they receive. This decrease is due solely to changes in the tax regime and therefore the performance related incentive (as stated in the prospectus dated 1 October 1997) is to be monitored without reference to the tax changes and upon the basis, *inter alia*, that "cumulative dividend payments (plus ACT liabilities)" means all distributions (whether in cash or otherwise) paid or declared by the Company plus in respect of distributions made before 6 April 1999, an amount equivalent to the amount of ACT paid in respect of such distributions and, in respect of distributions made after 5 April 1999, an amount equal to the amount of ACT which would have been payable had ACT not been abolished (assuming for these purposes that the rate of ACT would have remained at one-quarter of the amount of the distribution).

The performance warrant rights are allocated between VCF Partners on the one hand and Matrix-Securities and Martineau Johnson on the other hand in the ratio of 2:1 unless the gross capital raised for the Company amounts to more than £15 million in which case the ratio is adjusted by increasing the allocation of VCF Partners to three-quarters (and reducing the balance allocated between Matrix-Securities and Martineau Johnson to one quarter) in respect of the extent to which such capital exceeds £15 million.

Cazenove Fund Management ("Cazenove") manages the Company's portfolio of gilts and other fixed interest securities under an agreement dated 1 October 1997. The agreement may be terminated by either party with immediate effect. Cazenove receives an annual fee of 0.15% of funds under management, with a minimum of £10,000 per annum (in each case plus VAT thereon).

5 Other expenses

	1998 £
Directors' remuneration (note 6)	45,056
Broker's fees	4,406
Company secretarial fees	20,885
Accounting and book-keeping fees	20,885
Auditors' fees – for audit	10,000
– for other services	1,800
Registrar's fees	3,083
Other expenses	10,827
	116,942

Fees paid to the auditors and their associates in connection with the share issue amounting to £10,575 have been charged to the share premium account.

The Company has no employees other than directors.

6 Directors' fees

	1998 £
Salaries	
Peter Dicks	12,250
Nigel Horne	10,938
David Royds	8,750
	31,938
Amounts paid and payable to third parties for the services of Antony Diment	10,938
	42,876
NIC on salaries	2,180
	45,056

No pension scheme contributions or retirement benefit contributions were paid. There are no share option contracts held by the Directors. Since all the Directors are non-executive, the other disclosures required by the Listing Rules are not applicable.

7 Tax on ordinary activities

	1998 £
Based on the profit for the period:	
UK corporation tax at 21%	**52,722**

No tax arises on the unrealised capital gains. Tax relief relating to investment management fees is allocated between Revenue and Capital in the same proportion as such fees.

8 Return per Ordinary Share

The revenue return per Ordinary Share is based on the net revenue from ordinary activities after taxation of £319,140 and on 10,153,357 Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the period from 17 November 1997 to 30 September 1998.

The capital return per Ordinary Share is based on net unrealised capital gains of £87,499 and on 10,153,357 Ordinary Shares.

Notes **to the Accounts**

for the period ended 30 September 1998

9 Debtors and prepayments

	1998
	£
Amounts due within one year	
Accrued interest	11,570
Prepayments	77,400
	88,970
Amounts due after more than one year	
Advance corporation tax	79,281
	168,251

10 Creditors: amounts falling due within one year

	1998
	£
Corporation tax	52,722
Advance corporation tax	79,281
Other tax and social security	4,949
Other creditors	4,121
Accruals	21,744
Proposed dividend	317,425
	480,242

11 Significant interests

At 30 September 1998 the Company held no investment amounting to 10% or more of the equity capital of any undertaking other than its investment in Sapphire Group Limited which represents approximately 19% of the equity capital of that company.

12 Called up share capital

	1998
	£
Redeemable Non-Voting shares of 1p each	
Authorised, allotted, called-up and partly paid:	
Nil Shares	–
Ordinary Shares of 1p each	
Authorised: 35 million shares	**350,000**
Allotted, called up and fully paid:	
10,945,700 shares	**109,457**

To enable the Company to obtain a certificate under section 117 of the Companies Act 1985, on 19 September 1997 5,000,000 redeemable non-voting shares of 1p each were allotted at par for cash, paid up as to one quarter of their nominal value, to the Directors.

On 29 September 1997 special resolutions were passed providing for the conversion of the Redeemable Non-Voting shares to Ordinary Shares on the first admission of the Ordinary Shares to the Official List of the London Stock Exchange.

12 **Called up share capital** *(continued)*

The redeemable non-voting shares were paid up in full on 17 November 1997 and were then redeemed in full out of the proceeds of the public offer. The authorised but unissued shares so arising were automatically redesignated as ordinary shares and the articles of association of the Company were amended according. During the year the Company issued ordinary shares for cash at an issue price of £1 each as follows:

Allotted, called up and fully paid:		£
6,946,000	Ordinary Shares of 1p each on 17 November 1997	69,460
1,615,000	Ordinary Shares of 1p each on 24 November 1997	16,150
1,615,700	Ordinary Shares of 1p each on 18 December 1997	16,157
442,000	Ordinary Shares of 1p each on 25 June 1998	4,420
327,000	Ordinary Shares of 1p each on 27 August 1998	3,270
10,945,700	Nominal value	109,457
	Gross proceeds of issue	**10,945,700**

During the year the Company issued one warrant for every five ordinary shares issued as follows:

Number of warrants	Date of issue
1,389,200	On 17 November 1997
323,000	On 24 November 1997
323,140	On 18 December 1997
88,400	On 25 June 1998
65,400	On 27 August 1998
2,189,140	

Each warrant entitles a warrantholder to subscribe in cash on 31 January in one of the years 2001 to 2003 for one ordinary share at a price of 100p payable in full in cash on subscription which will rank *pari passu* with existing shares. An individual purchaser of warrants in the market who subscribes for new ordinary shares following the exercise of the subscription rights conferred by the warrants will be eligible for VCT tax reliefs subject to his personal circumstances. The Inland Revenue has confirmed that a disposal of warrants within five years by the shareholder to whom they were first issued should not affect the retention of VCT tax reliefs given in respect of the original subscription to which these warrants were attached. Further details of the warrants are available on request from the Company and were given in the prospectus dated 1 October 1997. Warrantholders do not have the right to block distributions to ordinary shareholders. Accordingly it is the opinion of the Directors that the value of the warrants from time to time will be determined by a number of factors including the market demand for VCT investment opportunities and the extent to which the Company's investments show gains which are likely to be realised and distributed after one of the exercise dates of the warrants.

13 **Reserves**

	Share premium account £	**Capital reserve (realised)** £	**Capital reserve (unrealised)** £	**Revenue reserve** £
Premium on issues of shares	10,836,243	–	–	–
Expenses paid in connection with share issues	(656,742)	–	–	–
Increase in unrealised appreciation	–	–	208,000	–
Retained net revenue for the period	–	(120,501)	–	1,715
At 30 September 1998	**10,179,501**	**(120,501)**	**208,000**	**1,715**

14 **Reconciliation of movements in shareholders' funds**

	£	pence per share
Net finance raised		
Issue of Redeemable Non-Voting shares	12,500	0.05
Issues of Ordinary Shares	10,945,700	100.00
Redemption of Non-Voting shares	(12,500)	(0.05)
Expenses paid in connection with share issues	(656,742)	(6.00)
	10,288,958	94.00
Revenue and capital retained		
Return attributable to equity shareholders	406,639	3.71
Dividends on equity shares	(317,425)	(2.90)
	89,214	0.81
Net addition to shareholders' funds	10,378,172	94.81
Closing equity shareholders' funds	**10,378,172**	**94.81**

15 **Net asset value per Ordinary Share**

Net asset value per Ordinary Share is based on net assets at the period end and on 10,945,700 Ordinary Shares, being the number of Ordinary Shares in issue on that date.

16 **Reconciliation of net revenue before taxation to Net cash inflow from operating activities**

	1998 **£**
Net revenue before taxation	403,894
Investment management fees charged to capital	(152,533)
Increase in debtors	(88,970)
Increase in creditors and accruals	30,814
Net cash inflow from operating activities	**193,205**

17 **Analysis of changes in net funds**

	Cash **£**	**Liquid Funds** **£**	**Total** **£**
Cash flows	16,077	8,936,087	8,952,164
At 30 September 1998	**16,077**	**8,936,087**	**8,952,164**

Notice **of Annual General Meeting**

Notice is hereby given that the first annual general meeting of Foresight Technology VCT plc will be held on Friday 29 January 1999 at 11am in the offices of Martineau Johnson, St Philips House, St Philips Place, Birmingham, B3 2PP for the following purposes:

Ordinary business

Resolution 1 To receive the financial statements for the period ended 30 September 1998 together with the reports of the Directors and Auditors thereon.

Resolution 2 To declare a first and final dividend of 2.9p per Ordinary Share.

Resolution 3 To re-elect David Royds.

Resolution 4 To re-elect Bernard Fairman.

Resolution 5 To re-appoint KPMG Audit Plc, as Auditors and to authorise the Directors to determine the Auditors' remuneration.

Special business

Resolution 6 To consider and, if thought fit, pass the following resolution as a Special Resolution:

That the Directors be empowered (pursuant to Section 95 (1) of the Companies Act 1985 ("Act")) to allot or make offers or agreements to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by a resolution passed at the Extraordinary General Meeting held on 29 September 1997 (which authorised the Directors to allot relevant securities up to an aggregate nominal value of £349,999.80 until 29 September 2002), as if Section 89 (1) of the Act did not apply to such allotment provided that this power shall expire on the date falling fifteen months after the date of this resolution, or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2000 (except that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements) and provided further that this power shall be limited to:

(i) the allotment and issue of equity securities in connection with offers of equity securities from time to time with an aggregate nominal value of any amount up to but less than 10% of the present issued ordinary share capital of the Company where the proceeds of such offers may, in part, be used to purchase the Company's ordinary shares in the market; and

(ii) the allotment and issue of equity securities (otherwise than pursuant to paragraph (i) above) from time to time with an aggregate nominal value of any amount up to but less than 5 per cent. of the present issued ordinary share capital of the Company.

Resolution 7 To consider and, if thought fit, pass the following resolution as a Special Resolution:

That the Company be empowered to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares, provided that:

7.1 the aggregate nominal amount of ordinary shares to be purchased shall not exceed 5% of the present issued ordinary share capital of the Company;

7.2 the minimum price which may be paid for ordinary shares is 1p per ordinary Share;

Notice **of Annual General Meeting**

7.3 the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceeding the day on which ordinary shares are purchased;

7.4 the authority conferred by this resolution shall expire on the expiry of twelve months from the passing of this resolution unless such authority is renewed prior to such time; and

7.5 the Company may make a contract to purchase ordinary shares under the authority conferred by this resolution prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

Resolution 8 To consider and, if thought fit, pass the following resolution as a Special Resolution:

That that Directors be empowered (pursuant to Section 95 (1) of the Companies Act 1985 ("Act")) to allot or make offers or agreements to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act by a resolution passed at the Extraordinary General Meeting held on 29 September 1997 (which authorised the Directors to allot relevant securities up to an aggregate nominal value of £349,999.80 until 29 September 2002), as if Section 89 (1) of the Act did not apply to such allotment provided that this power shall expire on the date falling fifteen months after the date of this resolution, or, if earlier, at the conclusion of the Annual General Meeting of the Company in 2000 (except that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offers or agreements) and provided further that this power shall be limited to the allotment and issue of equity securities in connection with the grant of additional Performance Warrants pursuant to a Supplemental Conditional Warrant Rights Agreement dated 7 December 1998 between the Company (1) VCF Partners (2) Matrix-Securities Limited (3) and Martineau Johnson which is summarised in note 4 to the Accounts for the year ended 30 September 1998.

By order of the Board

Roger William Blears
Company Secretary

St Philips House
St Philips Square
Birmingham B3 2PP

Date: 4 January 1999

A Member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll to vote on his or her behalf. A proxy need not also be a member. Appointment of a proxy will not preclude a member from subsequently attending and voting at the meeting should he or she subsequently decide to do so. A reply paid form of proxy for your use is enclosed. To be valid, it should be completed, signed and sent (together with the power of attorney or other authority(if any) under which it is signed or a notarially certified copy of such power or authority) to the Company's Registrars, Bank of Scotland, Registrar Services, 9 Haddington Place, Edinburgh EH7 4AL so as to be received not later than forty-eight hours before the time appointed for holding the meeting, any adjourned meeting, or in the case of a poll taken subsequent to the date of the meeting or adjourned meeting so as to be received not later than twenty-four hours before the time appointed for taking the poll. In accordance with the requirements of the Act the register of Directors' interests will be available for inspection at the Annual General Meeting.

Taxation Benefit

VCTs provide private investors with an attractive method of investing in small to medium-sized unquoted trading companies in the UK which would otherwise be difficult to invest in directly. VCTs also offer substantial tax benefits to private investors.

Personal Taxation Benefits

The tax reliefs set out below are available to individuals aged 18 or over who subscribe for ordinary shares. Whilst there is no specific limit on the amount of an individual's acquisitions of shares in a VCT, tax reliefs will only be given to the extent that the individual's acquisitions of shares in VCTs in any tax year do not exceed £100,000.

A Relief from income tax on tax investments

An investor subscribing for new ordinary shares in a VCT is entitled to claim income tax relief on amounts subscribed up to a maximum of £100,000 in any tax year. To obtain relief an investor must subscribe in his own name and not through a nominee although the shares may subsequently be transferred into the name of a nominee. The relief is given at the lower rate of tax on the amount subscribed (currently 20%) provided that the relief is limited to the amount which reduces the invested income tax liability to nil. Investments financed by a loan may not qualify for relief depending on the circumstances.

B Relief from capital gains tax reinvestment relief

An investor who is resident and ordinarily resident in the UK who realises a chargeable gain on or after the 6 April 1995 may defer tax on that gain by claiming for it to be treated as reinvested in ordinary shares in the VCT. To qualify for the relief the shares in which the reinvestment is made must be ordinary shares, in respect of which he obtained income tax relief on investment, which are subscribed for within the period beginning twelve months before and ending twelve months after the gain has accrued. The maximum amount subscribed for ordinary shares against which chargeable gains can be deferred is £100,000 in any one tax year, the same limit as for income tax relief on investment.

C Dividend relief

An investor who acquires in any tax year ordinary shares having a value of up to a maximum of £100,000 will not be liable to income tax on dividends paid by the VCT on those shares. A VCT accounts for advanced corporation tax on dividend and subsequently reclaims the tax credit on behalf of investors whom it pays an equivalent amount. Income tax relief on dividends is subject to the VCT receiving an "enduring declaration" from each investor containing the details required by the Inland Revenue. The enduring declaration must be in writing and given by the investor, not by someone else on his behalf. From the 6 April 1999 investors in a VCT will no longer be able to benefit from a repayment of a tax credit attached to the dividends they receive. Accordingly investors receiving dividends before 6 April 1999 will receive cash distributions together with an amount equivalent to a 20% tax credit. After the 5 April 1999 the position changes and investors will receive the cash distribution only. Although the income received will still be tax-free, investors will suffer a decrease in the total cash they receive. This decrease is due solely to changes in the tax regime.

D Relief from capital gains tax on disposal

A disposal by an investor of ordinary shares in the VCT will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is limited to disposals of ordinary shares acquired within the limit of £100,000 for any tax year, determined as for dividend relief.

The above is only an outline of the tax reliefs available under current legislation. Investors are recommended to consult a professional adviser as to the taxation consequences of investing in a VCT.

Corporate **Information**

Directors
Peter Frederick Dicks, chairman
Antony Richard Diment
Nigel William Horne
David John George Royds
Peter David English
Bernard William Fairman

Secretary
Roger William Blears

All of the Company's registered office and head office
St Philips House
St Philips Place
Birmingham
B3 2PP

Sponsor and solicitors to the Company
Martineau Johnson
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St Philips Place
Birmingham
B3 2PP

Auditors and Tax Advisers
KPMG Audit Plc
KPMG
both of
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Birmingham
B3 2DL

Bankers
Lloyds Bank plc
Midland North Wales Regional Commercial Service Office
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Birmingham
B3 3AE

Registrar
Bank of Scotland Registrar Services
New Issues
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Fixed Interest Fund Manager
Cazenove Fund Management Limited
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Promoter and Company Accountant
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