

# ProVen VCT plc

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## Report & Accounts

For the year ended  
28 February 2002



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## FINANCIAL SUMMARY

	Year ended 28 February 2002	Period ended 28 February 2001
Revenue return per share	2.4p	2.8p
Total return per share	(5.2p)	3.6p
Dividend per share	2.3p	2.4p
Cumulative dividend per share	4.7p	2.4p
Net asset value per share	88.4p	96.0p
Net asset value plus cumulative dividend per share	93.1p	98.4p
Mid-market price per share	90.0p	100.0p
Shareholders' funds (£000)	19,406	21,084

## INVESTMENT OBJECTIVE

ProVen VCT plc is a Venture Capital Trust established under the legislation introduced in the Finance Act 1995. The company's principal objectives as set out in the prospectus are to maximise tax-free capital and income returns to shareholders, over a five to ten year period, by investing in a portfolio consisting mainly of qualifying investments in established smaller UK companies with good growth prospects.

## SHAREHOLDER INFORMATION

### The Company

ProVen VCT plc was incorporated on 18 January 2000. In April 2000, the company obtained a listing on the London Stock Exchange, having raised approximately £22 million (before expenses) through an offer for subscription of new ordinary shares at 100p. The company has been provisionally approved as a Venture Capital Trust by the Inland Revenue.

### The Investment Manager

ProVen VCT plc is managed by ProVen Private Equity Limited, an independent fund management company based in London. ProVen Private Equity is part of the Beringea Group, which currently manages or advises venture capital funds totalling £225 million, including Guinness Flight Venture Capital Trust plc, and ProVen Media VCT plc.

### Venture Capital Trusts

Venture Capital Trusts (VCTs) were introduced in the Finance Act 1995 and are intended to provide a means whereby individual investors can invest in small unquoted trading companies in the UK, with incentives in the form of a number of tax benefits. The range of benefits available to investors includes:

- Income tax relief at 20% on new subscriptions
- Deferral of tax on certain chargeable gains to the extent the gain is re-invested in new shares in a VCT
- Exemption from income tax on dividends paid by VCTs (such dividends may include the VCT's capital gains as well as its income)
- Exemption of capital gains tax on disposals of shares in VCTs

ProVen VCT has been provisionally approved as a VCT by the Inland Revenue. In order to maintain its approval the company must comply with certain requirements on a continuing basis; in particular, within three years from the date of provisional approval at least 70% by value of the company's investments must comprise "qualifying holdings", of which at least 30% by value must be in eligible ordinary shares. A "qualifying holding" consists of up to £1 million invested in any one year in new shares or securities in an unquoted company which is carrying on a qualifying trade and whose gross assets do not exceed £15 million at the time of investment. For the purposes of these criteria, unquoted companies include companies whose shares are traded on the Alternative Investment Market.

As with investment trusts, capital gains accruing to VCTs are not chargeable gains for Corporation Tax purposes.

### Financial Calendar

The company's financial calendar for the year ending 28 February 2003 is as follows:

Annual General Meeting 2002	7 August 2002
Final dividend paid	8 August 2002
Interim report for six months to 31 August 2002 published	October 2002
Interim dividend paid	November 2002
Preliminary announcement of results for the year to 28 February 2003	May 2003
Annual General Meeting 2003	July/August 2003

### Share Price

The mid-market price of shares in ProVen VCT plc is reported daily in the Financial Times and appears under the heading "Investment Companies".

### Share Dealing

As with all venture capital trusts there are very few dealings in the securities of the company. However, shareholders should be able to sell their shares in the market at any time.

## CHAIRMAN'S STATEMENT

This is the second annual report presented to the shareholders of ProVen VCT, covering the year ended 28 February 2002. Whilst the year under review saw the continuation of difficult equity markets worldwide, towards the end of the period there was a modest improvement in the environment for investment in unquoted companies, and the investment manager continues to report evidence of more realistic pricing expectations in investment opportunities being generated. The investment rate achieved in the second half was similar to that in the first half, and with six further investments completed since the year end, the investment manager is continuing the progress towards the achievement of the investment target required by the VCT legislation.

### **New Investments**

During the year the investment manager invested £2.4 million in the qualifying venture capital investment portfolio and £1.0 million in non-qualifying unquoted investments. At the balance sheet date, the portfolio of venture capital investments totalled fifteen (of which twelve are qualifying). This brings your company almost halfway towards the target of 70% in qualifying investments that is required by the Venture Capital Trust regulations. Investment activity has continued since the year-end, with a further £1.1 million invested in qualifying holdings.

### **Revenue and Dividends**

Net revenue before tax for the year was £719,000 and the revenue return per share was 2.4p. During the financial year under review, ProVen VCT paid an interim dividend of 1.0p per share. The directors are proposing a final dividend for the year of 1.3p per share, payable on 8 August 2002, which will bring the total distribution for the year to 2.3p per share. The small decline in the total dividend for the year is consistent with the increasing size of the unquoted investment portfolio, which will normally have a lower yield than the portfolio of fixed income investments. Shareholders should expect therefore the annual dividend will reduce again in the coming year.

### **Net Asset Value**

Shareholders' funds as at 28 February 2002 stood at £19.4 million. The net asset value per share (NAV) at 28 February 2002 was 88.4p compared to 96.0p at 28 February 2001, after deducting the dividends paid and proposed. This decline is equivalent to 7.8% over the year, after adding back the effect of the dividends, and compares well to the drop in the FTSE AiM index of 36%. Details of the changes in the NAV over the year are detailed in the Report and Accounts on pages 21 to 33 and the Investment Manager's Review on pages 8 to 15.

### **Share Buy Backs**

During the year, your company purchased 26,000 shares in the market for cancellation, at a total cost of £22,036. Each purchase was made at a discount to the then net asset value. In order to maintain the company's ability to purchase its own shares where this is in the interests of shareholders, the board will at the forthcoming annual general meeting once again be seeking shareholder approval to renew its authority to purchase shares in the market. To facilitate this policy, the cancellation of the company's share premium account was confirmed by an Order of the High Court dated 23 January 2002 and a Special Reserve has been created which can be utilised to purchase shares in the market for cancellation.

### **Board Change**

Stephen Edwards resigned from the board on 14 March 2002 and has been replaced by Gordon Power, Chief Executive of the investment manager, ProVen Private Equity Limited. This change is linked to the developments within the management company reported by the investment manager.

### **Prospects**

Over the early life of the company, the investment manager invested slowly, believing that potential investment opportunities were priced too highly. As a result your company avoided some of the excessive valuations placed on unquoted investments, and technology stocks in particular. The relatively high cash retention that resulted from this policy has benefited your company, whose performance compares well with that of the UK quoted equity indices over that same period. We are now entering a period in which we expect relatively heavy investment leading up to the third anniversary of inception of the VCT. A number of larger, promising investments are already in process, nonetheless market conditions remain unpredictable and your board continues to take a cautious view of the future.

## **CHAIRMAN'S STATEMENT *continued***

In the last quarter of this financial year the climate for investment in unquoted companies showed signs of significant improvement when compared with earlier periods following the VCT's launch in 2000. This last quarter has seen a stabilising of stock markets with the FTSE AiM index reducing by 6% compared to 36% in the full year and the more mature FTSE AllShare reducing by 2% compared to 14% in the full year. The reduction in market volatility should provide the investment manager with a better economic background against which to invest the remaining qualifying portfolio in the third year of the company's life. Whilst it is too early to anticipate the outcome of the existing investments there are grounds to hope that on balance the winners will outweigh the losers. The objective of the company remains the generation of tax-free capital and income returns to shareholders over the next five to ten years.

### **Annual General Meeting**

The annual general meeting will be held at 11.00 a.m. on 7 August 2002 at 42 Craven Street, London, WC2N 5NG. I look forward to meeting those shareholders that are able to attend.

Andrew Davison  
Chairman

16 May 2002

## MANAGEMENT AND ADMINISTRATION

### **Registered Office & Registered Number**

42 Craven Street  
London WC2N 5NG  
Registered in England & Wales  
Registered No. 3911323  
Tel: 020 7451 6500  
Info@proven.co.uk

### **Company Secretary**

Hutton Corporate Services Limited  
15 Hutton Road  
Ash Vale  
Nr Aldershot  
Hampshire GU12 5EY

### **Auditor**

Deloitte & Touche  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

### **VCT Adviser**

PricewaterhouseCoopers  
1 Embankment Place  
London  
WC2N 6NN

### **Investment Manager**

ProVen Private Equity Limited  
42 Craven Street  
London WC2N 5NG

### **Fixed Income Securities Adviser**

Investec Asset Management  
2 Gresham Street  
London  
EC2V 7QP

### **Registrar**

Northern Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA  
Telephone: 01484 600900  
Clientservices@northernregistrars.co.uk

### **Solicitor**

Howard Kennedy  
19 Cavendish Square  
London W1A 2AW

## DIRECTORS

**Andrew Davison FCA** (Chairman), aged 59, is chairman of Pennine Downing Ethical VCT plc, Broadcastle plc and City of London Investment Manager Group PLC and is currently on the boards of a number of quoted and unquoted companies including ProVen Media VCT plc. He was formerly chairman and chief executive of Business Mortgages Trust plc from 1987 to 1991. He joined County Bank Limited in 1972 and by 1984 had become managing director of County NatWest Ventures Limited, which specialised in unquoted investments. He is a former council member of the BVCA.

**Gordon Power** (49) is chief executive of ProVen Private Equity Limited ("ProVen"). In March 1998, he led the management buy-out of ProVen from Guinness Mahon Group Limited. He has had extensive experience in investing in unquoted companies during a career in venture capital that commenced in 1984. He serves as a non-executive director on the boards of several unquoted companies. He is also a director of ProVen Media VCT plc.

**Nicholas Lewis MA MSc** (46) is a director of Downing Corporate Finance Limited, which he founded in 1986. Downing specialises in promoting and administering tax based investments, having raised over £200 million since 1992. He was a founding director of HIT Entertainment PLC in 1989. He is currently a director of ten other VCTs, including ProVen Media VCT plc, which have raised over £130 million. He was formerly with County NatWest Ventures Limited and before that with Apax Partners and Co. Limited.

**Ernest Sharp FCA** (71) is a director of Guinness Flight Venture Capital Trust PLC and Henry J Bean's Group PLC. For ten years, up until 1995, he was a member of the Investment Board of Electra Candover Direct Investment Plan.

**Tom Sooke MA MBA FCA** (57) is Chairman of ProVen Media VCT plc, on the Board of Quester VCT plc and, over the past ten years, he has been a non-executive director of a number of quoted and unquoted companies. Previously, he was a partner in Deloitte & Touche, co-managing the firm's corporate advisory group in London. Prior to that he was a corporate finance director at Granville Holdings plc, now part of Granville Baird Group Limited, where he also established and managed its main private equity fund activity from 1980 to 1987.

All directors are non-executive.

**Audit Committee:** Andrew Davison, Nicholas Lewis, Ernest Sharp, Tom Sooke.

## INVESTMENT MANAGER'S REVIEW

This review covers the year ended 28 February 2002 during which the company invested £3.4 million in seven new investments and two follow-on investments. This level of investment brings the total unquoted portfolio at cost to £7.4 million. Investments in VCT qualifying holdings comprise twelve companies at a total cost of £6.4 million, representing 32% of total investments at VCT valuation, compared to the target of 70% by 28 February 2003 that the VCT is required to meet under the Venture Capital Trust legislation.

ProVen VCT raised £22 million at the end of a lengthy period of stock market out-performance and found itself operating during the first year and a half in an unquoted investment environment where price expectations had risen in line with the stock market. In response to this climate, ProVen adopted a cautious approach to building the company's qualifying portfolio, which meant that progress towards the achievement of the investment target during this period was slower than planned.

During the second half of the year under review, continuing concerns over the economic climate, lower equity markets and the effects of the September 11 disaster gradually combined to persuade sellers of businesses and proprietors looking for finance that prices should be re-based, and we are now seeing an increasing number of attractive investment opportunities that are more reasonably priced.

Unfortunately we were not able to foresee all the market changes and the venture capital investment portfolio has suffered some value deterioration over the year.

### Performance

The cumulative return to shareholders at 28 February 2002 was 93.1p, comprising cumulative dividends paid and proposed of 4.7p and Net Asset Value per share (NAV) of 88.4p. This represents a small decline of 2% over the two years since the launch of the VCT when compared to the opening NAV (net of issue expenses) of 95p.

### New Investments

A total of £3.4 million was invested during the year in seven new investments and two follow-on investments. The companies that are new to the portfolio comprise two that are AiM traded and five unquoted investments, of which three are non-qualifying for VCT purposes. The total portfolio at the balance sheet date is made up of fifteen companies, representing a broad spread of sectors and stages of development, details of which are shown on page 10. New investments during the year were:

Name	Activity	Cost £000	Value £000
<b>AiM Listed Companies</b>			
The Sport Entertainment & Media Group Plc	Sports talent management	800	807
Pilat Media Global plc	Broadcast management systems	222	222
<b>Unquoted Companies</b>			
mergermarket Limited	M&A intelligence and information service	500	500
Baby Innovations S.A. (t/a Steribottle)*	Branded baby products	416	416
Copyright Promotions Group Limited*	Licensing and merchandising of brands	395	395
Espresso Broadband Limited	Educational products for primary schools	620	358
Esporting Media (UK) Limited*	Web based internet sales tools	200	200
Totals		<u>3,153</u>	<u>2,898</u>

\* Non-qualifying holdings

The two follow-on investments were in Oasis Healthcare (£170,000) and Keen Group (£82,500).

The majority of the new investments were made as part of a syndicate of other funds, including those managed by ProVen. This represents a deliberate policy on the part of the investment manager to target new investment into larger, more mature businesses with a lower risk profile, whilst selectively allocating capital to potentially fast-growth earlier stage businesses.

In accordance with the valuation guidelines of the British Venture Capital Association, investments completed within the last twelve months are held at cost unless there has been an unsatisfactory performance. In the case of Espresso, an early stage business supplying broadband educational content to schools, the company significantly under-estimated the time it would take

## INVESTMENT MANAGER'S REVIEW *continued*

to market its products and whilst its contract renewal rate is good, the board has accepted the investment manager's recommendation that a provision is taken against cost.

### Portfolio Companies

Details of the portfolio of Qualifying Holdings are shown on pages 10 to 15.

The company's AiM listed portfolio has shown an underlying valuation fall of around £256,000, or 8%, during the year, compared to a 36% decline in the AiM index. A follow-on investment of £170,000 was made in Oasis Healthcare plc, which has performed particularly well, both operationally and in terms of share price, since the original investment. By contrast, ID Data saw its share price fall by 86% during the year under review.

In the unquoted portfolio, the board of ProVen VCT accepted the investment manager's recommendation that provisions totalling £890,000 be made against the investments in four companies, each of which is performing below its original plan. In each case, ProVen continues to work closely with the companies in support of their efforts to effect improvements in their performance. The underlying performance of the new companies in the portfolio has been encouraging overall.

The spread of industry sectors achieved in the portfolio to date is shown below:

Sector	%
Support services	43.3
Media & IPR	21.8
Healthcare	14.7
Information technology	13.5
Construction/building materials	6.7

### Management of Liquid Funds

The company's portfolio of fixed interest securities is managed by Investec Asset Management Limited, and will be realised in large part during the current financial year to fund investment in qualifying holdings. During the year under review the yield achieved on the fixed interest portfolio was approximately 4.9% (net of management fees). At 28 February 2002, the company's fixed interest portfolio managed by Investec totalled some £12.8 million.

### Developments in the Management Company

During the year ProVen merged its operations with a US-based fund management and investment banking group, Beringea LLC. The newly-formed Beringea Group has funds under management of £225 million, with particular expertise in the media, PR and healthcare sectors. As part of this merger Gordon Power, who is Chief Executive of ProVen, returned from the USA to oversee the investment activities for the UK operations of ProVen Private Equity Limited and Stephen Edwards resigned to pursue his career elsewhere. The UK investment team has also been strengthened by the addition of specialist consultants, Marc Vlessing, an operational manager with wide-ranging media skills, and Stuart Veale, a venture capitalist with 15 years' experience, most recently with Lloyds TSB Development Capital.

After the year-end ProVen increased further the investment management resources available to ProVen VCT by entering into a resource-sharing agreement with Inflexion Managers Limited, a private equity investment management company headed by Simon Turner (ex Daiwa Structured Finance) and John Hartz (ex Apax Private Equity).

### Prospects

Since the turn of the calendar year we have experienced an increase in the volume of attractive investment opportunities under review and since October 2001 stock markets have been relatively stable. To meet the target of 70% of total investments in qualifying investments by the end of the current financial year, ProVen VCT must invest a total of approximately £8 million this year. This will be a challenge, but we are committing additional resources to the investment area which, combined with the qualifying investments completed since the balance sheet date at a cost of £1.1 million and the current level of opportunities, lead us to believe we will be able to build an attractive portfolio of investments within the required timescale.

### ProVen Private Equity Limited

16 May 2002

## INVESTMENT PORTFOLIO

At 28 February 2002

	Cost £000	Valuation £000	% of net assets
<b>Qualifying holdings</b> (see pages 11 to 15)			
Oasis Healthcare plc*	670	1,091	5.6
The Sport Entertainment & Media Group Plc*	800	807	4.2
UBC Media Group plc*	501	631	3.3
Chiaros Holdings Limited (t/a TMI)	800	560	2.9
Linguaphone Group plc	500	500	2.6
mergermarket Limited	500	500	2.6
Bond iT Limited	500	441	2.3
Espresso Broadband Limited	620	358	1.8
Pilat Media Global plc*	222	222	1.1
The Keen Group Limited	495	165	0.9
Transcomm plc*	380	159	0.8
I D Data plc*	420	50	0.3
Total qualifying holdings	<u>6,408</u>	<u>5,484</u>	<u>28.4</u>
<b>Non-qualifying holdings</b> (see pages 11 to 15)			
Baby Innovations S.A. (t/a Steribottle)	416	416	2.1
Copyright Promotions Group Limited	395	395	2.0
Espotting Media (UK) Limited	200	200	1.0
Total non-qualifying holdings	<u>1,011</u>	<u>1,011</u>	<u>5.1</u>
Total unquoted investments	<u>7,419</u>	<u>6,495</u>	<u>33.5</u>
<b>Listed fixed interest investments</b>			
£11,010,000 UK Treasury 8.0% 10/06/03	<u>11,638</u>	<u>11,492</u>	<u>59.2</u>
<b>Unlisted fixed interest investments</b> <b>(Certificates of Deposit)</b>			
£100,000 Landesbank Badenwuer 4.4% 25/02/03	100	100	0.5
£1,200,000 Royal Bank of Scotland 4.405% 25/02/03	<u>1,200</u>	<u>1,200</u>	<u>6.2</u>
	<u>1,300</u>	<u>1,300</u>	<u>6.7</u>
<b>Total investment portfolio</b>	<u>20,357</u>	<u>19,287</u>	<u>99.4</u>
<b>Net current assets</b>		<u>119</u>	<u>0.6</u>
<b>Shareholders' funds</b>		<u>19,406</u>	<u>100.0</u>

\* Investment traded on the Alternative Investment Market ("AiM")

## TOP TEN VENTURE CAPITAL INVESTMENTS

### Oasis Healthcare plc \* *Norwich*

#### Branded corporate dentistry

Oasis is a provider of dental care services to private and NHS patients in England. The company was admitted to AiM in July 2000, and has raised a total of £8.8 million in two tranches to fund its development, primarily by acquisition, as a leading brand in UK retail dentistry. ProVen VCT invested alongside Guinness Flight VCT and other investors in this equity financing. Oasis has performed well and is achieving a consolidation of dentist practices under the Oasis brand in line with its original plan. On the second fund-raising Proven VCT increased its investment in Oasis by £170,000 and the share price has moved forward by 45% since last year end.

Investment date(s):	July 2000 and July 2001
Equity held:	4.1%
Cost :	£670,000 (2001: £500,000)
Valuation:	£1,091,000 (2002: £620,000)
Valuation basis:	Mid-market price
Dividends received during the year:	Nil
Last audited accounts:	31 March 2001
Net assets:	£7.8 million
Loss before tax:	£(369,000)



### The Sport Entertainment & Media Group Plc \* *Middlesex*

#### Sports management in the UK and Europe

SEM is a leading UK based sports management group, predominantly football focused, with recent expansion into other sports, notably boxing, and Formula 1 motor racing and golf. The company manages, represents and provides services for over 80 football players in the UK and Europe and for several major football clubs including Arsenal, Leeds and Celtic. Additionally, through the recent acquisition of Cloudmanor, the company now represents Lennox Lewis, the heavyweight boxer. The company was admitted to AiM in August 2001, raising approximately £5.0 million to fund the strategic acquisition of complementary businesses. ProVen VCT invested alongside other funds managed or advised by ProVen in this equity financing.

Investment date(s):	August 2001
Equity held:	4.4%
Cost:	£800,000
Valuation:	£806,557
Valuation basis:	Mid-market price
Dividends received during the year:	Nil
Next audited accounts:	30 June 2002



## TOP TEN VENTURE CAPITAL INVESTMENTS *continued*

### **UBC Media Group plc \* London**

#### **Analogue and digital radio producer and broadcaster**

UBC Media is a leading radio production company for both digital and analogue stations, including the BBC and many other commercial stations. The company was admitted to AiM in July 2000, and raised £4.4 million to finance expansion opportunities in the radio sector. ProVen VCT invested alongside other funds managed or advised by ProVen in this equity financing. During the year, UBC has extended its analogue and digital reach to over 16 million listeners through its Classic Gold brand and met all the technology targets set at its IPO. The share price has declined 7% since last year. The company has recently raised a further tranche of capital to fund expansion, in which ProVen VCT invested £600,000.

Investment date(s)	July 2000
Equity held:	1.6%
Cost :	£501,047 (2001: £800,047)
Valuation:	£631,000 (2001: £800,000)
Valuation basis:	Mid-market price
Dividends received during the year:	Nil
Last audited accounts:	31 March 2001
Net assets:	£3.2 million
Loss before taxation:	£(4.2) million



### **Chiaros Holdings Limited (T/A TMI) Warwickshire**

#### **Time management training courses**

TMI provides training and consulting services in time management and personal skills development to corporate clients. ProVen led the £5.5 million management buyout of TMI in December 2000. TMI has suffered poor performance due to the economic downturn following the events of September 11. Overhead reductions have been implemented to preserve cash and profitability. The board has therefore accepted the investment manager's recommendation of a provision against the cost of the ordinary equity pending a return to profitability and a stable environment.

Investment date(s):	December 2000
Equity held:	24.0%
Cost :	£800,000 (2001: £800,000)
Valuation:	£560,000 (2001: £800,000)
Valuation basis:	Provision
Dividends received during the year:	Nil
Last audited accounts (draft only):	30 June 2001
Net assets:	£954,000
Profit before taxation:	£31,000



## TOP TEN VENTURE CAPITAL INVESTMENTS *continued*

### **Linguaphone Group plc Surrey**

#### **A leading branded language teaching company**

ProVen led a £3 million financing in July 2000 to fund an acquisition and the development by Linguaphone of new distribution media, such as the internet and mobile telephony, for its extensive language teaching content. The development timetable has proved to be over-optimistic and costs have over-run, causing both cash and profit under performance. The company has recently raised a further tranche of capital to restore its balance sheet and working capital, in which ProVen VCT invested £109,000. ProVen VCT has not revalued its holding to the rights issue price, as its original investment holds a preferred position on the sale of the business that supports the investment at cost. ProVen VCT is invested alongside other funds managed or advised by ProVen in Linguaphone.

Investment date(s):	July 2000
Equity held:	4.7%
Cost :	£500,000 (2001: £500,000)
Valuation:	£500,000 (2001: £500,000)
Valuation basis:	Cost
Dividends received during year:	Nil
Last audited accounts:	30 June 2001
Net assets:	£5.0 million
Loss before taxation:	£(3.6) million



### **mergermarket Limited London**

#### **Business information services**

mergermarket Limited, based in London, England, provides a business development tool for advisers and companies active in mergers and acquisitions ("M&A"). The company provides intelligence data on corporate activity across all economic sectors to clients on a subscription basis over the web. In June 2001, ProVen VCT invested £500,000 in a £1.5 million financing, alongside other ProVen funds and a further investment from the company's original backers, New Media Spark. There is a commitment to invest further funds subject to the company achieving certain milestones. To date the company has built up an impressive client base of advisers and companies, and has achieved renewal rates of 80% plus and a steady growth in 12 month rolling sales.

Investment date(s):	June 2001
Equity held:	7.7%
Cost:	£499,995
Valuation:	£499,995
Valuation basis:	Cost
Dividends received during the year:	Nil
Next audited accounts:	31 December 2001



## TOP TEN VENTURE CAPITAL INVESTMENTS *continued*

### **Bond iT**

#### **Branded adhesives and sealants *Yorkshire***

Bond iT is a repackaging manufacturer and distributor of sealants and adhesives, largely supplying independent professional tradesmen through retailers and builders merchants. The business was bought by its management team in 2000 with £2 million of equity funding provided by HSBC Ventures, ProVen VCT and Guinness Flight VCT. Trading was initially difficult but under additional new management new products have been launched. The board has accepted the investment manager's recommendation of a provision against the ordinary equity pending a recovery in profitability.

Investment date(s):	October 2000
Equity held:	12.5%
Cost :	£500,000 (2001: £500,000)
Valuation:	£441,000 (2001: £500,000)
Valuation basis:	Provision
Dividends received during the year:	Nil
Last audited accounts:	31 October 2001
Net assets:	£2.1 million
Loss before taxation:	£(668,000)

### **Baby Innovations S.A. T/A Steribottle \*\* *London***

#### **Marketing and distribution of branded disposable baby bottle**

The Steribottle is the world's first ready-to-use, disposable, sterile and affordable baby bottle. It was launched into the UK market in autumn 2000 and is now set to grow sales and distribution in the UK and to roll-out internationally. Although an early stage investment, the management team has a strong background in brand management in the FMCG sector and has organised the companies' activities so as to minimise overheads and hence reduce the capital risk. The company raised £2.0 million in January 2002 from existing investors and funds managed or advised by ProVen to fund the next stage of its marketing and distribution strategy.

Investment date(s):	January 2002
Equity held:	2.6% (on conversion of funding units)
Cost:	£416,000
Valuation:	£416,000
Valuation basis:	Cost
Dividends received during the year:	Nil
Next audited accounts:	31 December 2002

**Steri-bottle\***

## TOP TEN VENTURE CAPITAL INVESTMENTS *continued*

### Copyright Promotions Group Limited \*\* London

#### Licensing and merchandising agency

Copyright Promotions Group Limited (CPG) is one of Europe's leading independent licensing and merchandising agencies, acting for copyright owners of well-known characters, brands and rights such as The Simpsons, Star Wars, Shrek, Mister Men and Tomb Raider. Its core skills are a deep understanding of retail marketing and distribution, and the development and implementation of a brand management strategy on behalf of the owners of intellectual property. ProVen VCT invested in July 2001 alongside other funds managed or advised by ProVen in a management buyout from the receiver. The investment is showing good potential despite falling behind its plan due to the delay in the launch of the new Star Wars movie.

Investment date(s):	July 2001
Equity held:	12.2%
Cost:	£395,000
Valuation:	£395,000
Valuation basis:	Cost
Dividends received during the year:	Nil
First audited accounts:	31 December 2001



THE COPYRIGHT PROMOTIONS LICENSING GROUP

### Espresso Broadband London

#### Development and delivery of educational materials for schools

The company's first product *Espresso for Schools* ("EFS") is a digital media education service for UK primary schools, which was commercially launched in April 2000. In September 2001 Proven VCT invested alongside original investors and other funds managed or advised by ProVen to fund the further development and roll-out of the product. Trading since the investment date has been disappointing and management changes have been made. This is an early stage investment and given the performance to date, the board has accepted the investment manager's recommendation of a provision against the cost of the ordinary equity.

Investment date(s):	September 2001
Equity held:	12.0%
Cost:	£620,000
Valuation:	£358,384
Valuation basis:	Provision
Dividends received during the year:	Nil
Next audited accounts:	30 April 2002



**Notes: Qualifying equity investments in the above companies carry full voting rights. Where stated, references to the "next" or "first" audited accounts relate to the first annual report and accounts to be prepared by the investee company following the date of investment by ProVen VCT.**

\* AiM listed investment

\*\* Non-qualifying investment

## DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year to 28 February 2002.

### Activities and Status

The principal activity of the company during the year was the making of long-term equity and loan investments in unquoted and AiM traded companies in the United Kingdom. The company is an investment company as defined in section 266 of the Companies Act 1985 and has been listed on the London Stock Exchange since April 2000. The company has been granted provisional approval by the Inland Revenue as a Venture Capital Trust. The Chairman's Statement on pages 4 and 5 and the Investment Manager's Review on pages 8 to 15 give a review of developments during the year and of future prospects.

The directors have managed the affairs of the company with the intention that it will qualify for approval by the Inland Revenue as a Venture Capital Trust for the purposes of Section 842AA of the Income and Corporation Taxes Act 1988. The directors consider that the company was not at any time up to the date of this report a close company within the meaning of Section 414 of the Act.

Although it is not intended that the company should have a limited life, shareholders will be given the opportunity to review its future after approximately seven years and, thereafter, at five yearly intervals. Accordingly, the Articles of Association of the company contain provisions requiring the directors to propose an ordinary resolution at the company's annual general meeting in 2007 to seek confirmation from shareholders that it should continue as a VCT.

### Results and Dividend

	<b>Year to 28 February 2002 £000</b>	Period to 28 February 2001 £000
Net revenue attributable to shareholders	<u>522</u>	<u>575</u>
Appropriated as follows:		
Interim dividend paid – 1.0p per share	220	–
Final dividend proposed – 1.3p per share	285	527
Retained in revenue reserve	<u>17</u>	<u>48</u>
	<u>522</u>	<u>575</u>

The Board recommends a final dividend of 1.3p per share, which, if approved by shareholders at the forthcoming Annual General Meeting, will be paid on 8 August 2002 to shareholders on the register at 5 July 2002.

### Directors

The directors of the company and their interests in the issued ordinary shares of 5p each of the company are as follows:

<b>As at</b>	<b>28 February 2002 or date of appointment or resignation</b>	28 February 2001
A J Davison	5,000	5,000
S P Edwards (resigned on 14 March 2002)	12,500	12,500
N P Lewis	10,000	10,000
G R Power (appointed on 14 March 2002)	8,000	n/a
E H Sharp	36,000	36,000
T P Sooke	5,000	5,000

All of the directors' share interests shown above are held beneficially. There have been no changes in the directors' share interests between 28 February 2002 and the date of this report.

## DIRECTORS' REPORT *continued*

Brief biographical notes on the directors are given on page 7. In accordance with the company's Articles of Association, Mr A. Davison retires from the Board by rotation and offers himself for re-election.

None of the directors has a contract of service with the company and, except as mentioned below under the heading "Management", there were no contracts that subsisted during the period in which a director was materially interested and which were significant in relation to the company's business.

### **Directors' and Officers' Liability Insurance**

As permitted by section 310(3) of the Companies Act 1985, the company has maintained insurance cover on behalf of the directors and secretary indemnifying them against certain liabilities that may be incurred by them in relation to the company.

### **Share Buy Back**

During the year the company repurchased and cancelled 26,000 ordinary shares of 5p each for a consideration of £22,036. The buy back represented 0.1% of the called up share capital.

### **Management**

ProVen Private Equity Limited (ProVen) has acted as investment manager to the company since February 2000. Downing Corporate Finance Limited (Downing) is contracted under an administration agreement to provide the VCT with advice relating to shareholder communications. The principal terms of the management and administration agreements are set out in Note 2 to the financial statements.

G R Power is and S P Edwards was, until his resignation on 14 March 2002, a director of ProVen and N P Lewis is a director of and shareholder in Downing.

### **VCT Status Monitoring**

ProVen VCT has engaged PricewaterhouseCoopers (PwC) to advise it on compliance with the VCT legislation. PwC reviews appropriate new investment opportunities for compliance with the VCT rules and conducts a regular review of the company's investment portfolio to monitor ongoing VCT compliance. PwC works closely with the investment manager, but reports directly to the Board of the VCT.

### **Substantial Shareholdings**

So far as the directors are aware, there were no individual shareholdings representing 3 per cent or more of the company's issued share capital during the period under review or at the date of this report.

### **Creditor Payment Policy**

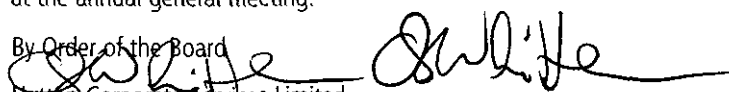
The company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. The company's principal expenses such as investment management fees and administration fees are paid quarterly in arrears in accordance with the respective agreements. Accordingly the company had no material trade creditors at the year end.

### **Annual General Meeting**

A resolution will be proposed as special business at the annual general meeting to renew the authority of the directors to make market purchases of the company's shares for cancellation. It is the intention of the directors to seek to renew this authority at each subsequent annual general meeting.

### **Auditors**

A resolution to reappoint Deloitte & Touche as auditors and to authorise the directors to agree their remuneration will be proposed at the annual general meeting.

By Order of the Board  
  
Hutton Corporate Services Limited  
Secretary  
42 Craven Street  
London WC2N 5NG

16 May 2002

## CORPORATE GOVERNANCE

The company is committed to maintaining high standards in corporate governance. In particular, the Board seeks to observe the principles set out by the Report of the Committee on Corporate Governance ("the Combined Code") insofar as these are consistent with the company's status and objectives as a Venture Capital Trust. Throughout the year ended 28 February 2002 the company has complied with the provisions of Section 1 of the Combined Code, as they relate to venture capital trusts, other than as noted below.

### **The Board**

The company has a Board of five non-executive directors, three of whom are independent. In these circumstances the Board does not believe it is necessary to identify a senior independent director other than the chairman.

The Board meets at least quarterly and on other dates as required to review the performance of the company and its portfolio of investments and to monitor compliance with the investment policy laid down by the Board. The investment manager provides the Board with appropriate information on a timely basis to support its review and decision-making procedures. The Board has 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.

All of the directors have access to the advice and services of the company secretary, and directors may also take independent professional advice at the company's expense where necessary in the furtherance of their duties.

All directors were subject to election by shareholders at the first annual general meeting following their appointment and thereafter are subject to retirement by rotation at intervals of no more than three years. Non-executive directors are not appointed for specified terms, as the Board believes the contribution of a non-executive director to a Venture Capital Trust may be enhanced rather than diminished by long service. The Board has not appointed a nominations committee as it considers the board to be small. Appointments of new directors are reserved to the full Board.

### **Audit Committee**

During the year to 28 February 2002, the audit committee comprised four non-executive directors, three of whom are independent of the company. The audit committee meets twice a year and is responsible for reviewing the interim and annual accounts before their submission to the Board for discussion and approval. The auditors will attend at least one of these meetings. The audit committee met on 9 May 2002, with the auditors in attendance, to review the financial statements for the period ended 28 February 2002.

### **Directors' Remuneration**

As a Venture Capital Trust with no executive directors, the company is not required to give details of directors' remuneration as required by 12.43A(c) of the FSA Listing Rules. However, details of the fees paid to non-executive directors during the year are given in Note 4 to the accounts.

### **Relations with Shareholders**

The company's annual general meeting will be held on 7 August 2002 when shareholders will have the opportunity to meet the Board. Separate resolutions are proposed at the AGM on each substantially separate issue. Proxy votes are counted, and in order to comply with the Combined Code, proxy votes will be announced at the AGM, following each vote on a show of hands, except in the event of a poll being called.

In addition to the formal business of the AGM, representatives of the investment manager, the Board and the audit committee will be available to answer any questions a shareholder may have, and the Board is always pleased to respond to any queries from shareholders during the course of the year.

### **Internal Control**

The Board is responsible for the company's system of internal control and for reviewing its effectiveness, at least annually. The system of internal control to be operated should cover all controls including financial, operational and compliance controls and risk management. The objective of these controls is to safeguard shareholders' investment and the company's assets. The company's system of internal control is designed to manage rather than eliminate the risks involved in managing a portfolio of investments, and can only provide reasonable and not absolute assurance against material misstatement or loss.

## **CORPORATE GOVERNANCE *continued***

The company has adopted a risk-based approach to the review of internal controls. The applicability and effectiveness of the controls is reviewed at least annually by the board and reported upon quarterly by exception. This quarterly report is prepared by the investment manager, ProVen Private Equity Limited (ProVen). The board last reviewed the effectiveness of the internal control system on 22 January 2002.

In accordance with the delegation of the company's investment management and administration to ProVen, the board has identified in its risk framework those controls operated on its behalf by the investment manager. The board requires the investment manager to report twice a year on these controls. The board also requires Hutton Corporate Services to report annually on the operation of its internal controls as they relate to ProVen VCT, and Investec, as fixed income portfolio manager, to provide the board annually with a copy of its FRAG 21 report.

The key elements of the internal controls system operated by the Board are as follows:

- The Board receives semi-annual reports of the company's VCT status.
- Every investment proposal is submitted to the Board for approval.
- The Board reviews the performance of the portfolio at each board meeting, and is kept informed of developments more frequently, as required.
- The Board approves annual budgets prepared by the investment manager, and receives quarterly reports of financial results and net asset value.
- ProVen VCT and other funds managed by ProVen co-invest in opportunities on an agreed and documented basis, which has been subject to prior approval by the Board.

The Board receives reports from its advisers on internal control matters and does not believe there is scope or necessity for an internal audit function. This matter will be subject to periodic review.

### **Going Concern**

The directors are of the opinion that at the time of approving the financial statements, the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### **Statement of Directors' Responsibilities**

United Kingdom 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 as at the end of the financial year and of the revenue of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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, enabling them to ensure that the financial statements comply with the Companies Act. They are also responsible for the company's system of internal control, safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ProVen VCT plc

We have audited the financial statements of Proven VCT plc for the year ended 28 February 2002 which comprise the statement of total return, the balance sheet, the cash flow statement, the accounting policies and the related notes 1 to 20. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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 1985. We also report 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 with the company and other members of the group is not disclosed.

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

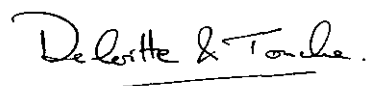
### Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the company, 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.

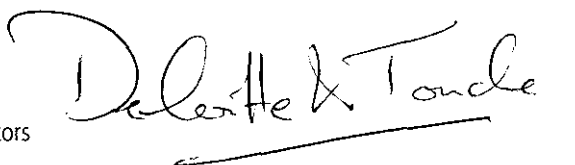
### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 28 February 2002 and of the total return of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche  
Chartered Accountants and Registered Auditors  
Stonecutter Court  
1 Stonecutter Street  
London EC4A 4TR

16 May 2002



## ACCOUNTING POLICIES

### General

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting policies and the Statement of Recommended Practice "Financial Statements of Investment Trust Companies". The accounts have been prepared under the historical cost convention, as modified to include the revaluation of fixed asset investments.

### Investments

Listed or AiM traded investments are stated at market value, which is based upon middle market prices at the balance sheet date. In the event that the shares held by the company are subject to certain restrictions, or the holding is significant in relation to the traded issued share capital of the investee company then the directors may apply a discount to the relevant middle market price.

Investments in unquoted companies are valued by the directors using the following guidelines, which are consistent with those recommended by the British Venture Capital Association (BVCA). Unlisted investments are stated at directors' valuation. The directors' policy in valuing unlisted investments is to carry them at cost except in the following circumstances:

- where a company's performance against plan indicates a diminution in the value of the investment: any provision against cost is made as appropriate in bands of 25%;
- where a company is well established with a record of profitability: the shares may be valued by applying a suitable price earnings ratio to the company's historical post-tax earnings. When applying such ratios, the directors will take into account comparable listed companies or sectors and will apply a discount of between 25% and 50% to reflect the lack of marketability; and
- where a value is indicated by a material arm's-length transaction with a third party in the shares of a company.

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

Realised surpluses or deficits on the disposal of investments and permanent impairments in the value of investments are taken to realised capital reserves. Unrealised surpluses and deficits on the revaluation of investments are taken to unrealised capital reserves. Costs incurred relating to acquisitions and disposals are charged to capital reserves as an addition to costs or a deduction from proceeds.

It is not the company's policy to exercise controlling or significant influence over investee companies, although it may hold a significant interest in some companies. Accordingly, the results of these companies are not incorporated into the revenue account except to the extent of any income earned or received.

### Income

Dividend income receivable from quoted securities is recognised on the ex-dividend date. Income from unquoted equity and non-equity securities is recognised on receipt.

Interest from cash and deposits is treated on the accruals basis. Fixed returns on debt securities are recognised on an accruals basis.

### Expenses

All expenses are accounted for on an accruals basis. One quarter of the investment management fee is charged to the revenue account and the remaining three quarters is charged to capital reserves, net of corporation tax relief, and inclusive of any irrecoverable value added tax. The allocation of the management fee reflects the directors' estimate of the source of the long-term returns in the portfolio from revenue and capital.

### Taxation

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

## STATEMENT OF TOTAL RETURN (INCORPORATING THE REVENUE ACCOUNT)

for the year ended 28 February 2002

	Notes	Year ended 28 February 2002			Period ended 28 February 2001		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
(Losses)/gains on investments	8						
– realised		–	(137)	(137)	–	119	119
– unrealised		–	(1,289)	(1,289)	–	219	219
Income	1	1,060	–	1,060	1,096	–	1,096
Investment management fee	2	(122)	(365)	(487)	(86)	(258)	(344)
Other expenses	3	(219)	–	(219)	(214)	–	(214)
<b>Return on ordinary activities before taxation</b>		<b>719</b>	<b>(1,791)</b>	<b>(1,072)</b>	<b>796</b>	<b>80</b>	<b>876</b>
Tax (charge)/credit on ordinary activities	5	(197)	118	(79)	(221)	84	(137)
<b>Return on ordinary activities after taxation</b>		<b>522</b>	<b>(1,673)</b>	<b>(1,151)</b>	<b>575</b>	<b>164</b>	<b>739</b>
Dividends	6	(505)	–	(505)	(527)	–	(527)
<b>Transfer to/(from) reserves</b>	15	<b>17</b>	<b>(1,673)</b>	<b>(1,656)</b>	<b>48</b>	<b>164</b>	<b>212</b>
<b>Return per ordinary share Basic and diluted</b>	7	<b>2.4p</b>	<b>(7.6p)</b>	<b>(5.2p)</b>	<b>2.8p</b>	<b>0.8p</b>	<b>3.6p</b>

The notes on pages 25 to 33 form an integral part of these financial statements.

All revenue and capital items in the above statement are from continuing operations. The revenue column represents the profit and loss account of the company. No operations were acquired or discontinued in the period. Other than shown above, the company had no recognized gains and losses.

The prior year comparatives cover the 58 week period ended 28 February 2001.

## BALANCE SHEET

28 February

	Notes	2002 £000	2001 £000
<b>Fixed assets</b>			
Investments	8	19,287	21,170
<b>Current assets</b>			
Debtors	11	195	279
Cash at bank and in hand		<u>497</u>	<u>468</u>
		692	747
<b>Creditors: amounts falling due within one year</b>	12	<u>(573)</u>	<u>(833)</u>
<b>Net current assets/(liabilities)</b>		<u>119</u>	<u>(86)</u>
<b>Total assets less current liabilities</b>		<u>19,406</u>	<u>21,084</u>
<b>Capital and reserves</b>			
Called-up share capital	13	1,097	1,099
Share premium	14	-	19,773
Special reserve		19,773	-
Capital redemption reserve	14	2	-
Capital reserve – realised	14	(439)	(55)
Capital reserve – unrealised	14	(1,070)	219
Revenue reserve	14	<u>43</u>	<u>48</u>
<b>Total equity shareholders' funds</b>	15	<u>19,406</u>	<u>21,084</u>
<b>Net asset value per ordinary share</b>	16	<u>88.4p</u>	<u>96.0p</u>

The financial statements on pages 21 to 33 were approved by the Board of Directors on 16 May 2002 and were signed on its behalf by:



Andrew Davison  
Chairman



The notes on pages 25 to 33 form an integral part of these financial statements.

## CASH FLOW STATEMENT

for the year to 28 February 2002

	Year ended 28 February 2002 £000	Period ended 28 February 2001 £000
<b>Net revenue from operating activities</b>		
Net revenue from ordinary activities before tax	719	796
Decrease/(increase) in debtors	84	(279)
Increase in creditors	41	169
Management fees charged to capital	(365)	(258)
Net cash inflow from operating activities	<u>479</u>	<u>428</u>
<b>Corporation tax paid</b>	(138)	–
<b>Financial investment</b>		
Purchase of investments	(23,229)	(54,795)
Sale of investments	<u>23,686</u>	<u>33,963</u>
Net cash inflow/(outflow) from financial investment	457	(20,832)
<b>Equity dividends paid</b>	(747)	–
<b>Financing</b>		
Issue of redeemable preference shares	–	50
Issue of ordinary shares	–	21,970
Share issue expenses	–	(1,098)
Redemption of preference shares	–	(50)
Buy back of 26,000 ordinary shares	(22)	–
Net cash (outflow)/inflow from financing	<u>(22)</u>	<u>20,872</u>
<b>Increase in cash in period</b>	<u>29</u>	<u>468</u>
<b>Analysis of cash balance</b>		
At 28 February 2001	468	–
Net cash inflow for the period	<u>29</u>	<u>468</u>
At 28 February 2002	<u>497</u>	<u>468</u>

The notes on pages 25 to 33 from an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

for the year to 28 February 2002

### 1 Investment Income

	Year ended 28 February 2002 £000	Period ended 28 February 2001 £000
<b>Income from investments</b>		
UK Treasury stocks	938	374
Certificates of Deposit	108	601
Money market fund	–	39
	<u>1,046</u>	<u>1,014</u>
<b>Other income</b>		
Bank and deposit interest	14	82
	<u>1,060</u>	<u>1,096</u>

### 2 Investment Management Fee

	Year ended 28 February 2002		Period ended 28 February 2001	
	Revenue £000	Capital £000	Revenue £000	Capital £000
Investment management fee	103	311	73	220
Irrecoverable VAT thereon	19	54	13	38
	<u>122</u>	<u>365</u>	<u>86</u>	<u>258</u>

ProVen Private Equity Limited (ProVen) provides investment management services to the company in respect of the company's portfolio of venture capital investments under an investment management agreement dated 9 February 2000.

ProVen receives a fee (exclusive of VAT), equal to 2.0% per annum in the year ended 28 February 2002 and 2.5% per annum thereafter of the net assets of the company, subject to a cap on total costs of 3.5% per annum of net assets. The fee is calculated at half-yearly intervals based on net assets as at 31 August and 28 February and is payable quarterly in arrears.

ProVen also provides administrative and secretarial services to the company under the terms of an administration agreement dated 9 February 2000 for an annual fee of £50,000 (plus VAT and RPI). Out of this fee, ProVen pays to Downing Corporate Finance Limited (Downing) an annual fee of £20,000 (plus VAT & RPI) in consideration for services to the company relating to its communications with shareholders and their financial advisers. This arrangement will remain in place until the investment management agreement is terminated.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 3 Other Expenses

	Year ended 28 February 2002	Period ended 28 February 2001
	£000	£000
Administrative and secretarial services	50	48
Directors' remuneration (see note 4)	53	55
Auditors' remuneration		
– for audit services	15	9
– for non-audit services	5	5
Irrecoverable VAT	28	26
Other expenses	68	71
	<u>219</u>	<u>214</u>

Irrecoverable VAT attributable to the management fee is disclosed in Note 2 and is not included in the figure for irrecoverable VAT stated above.

### 4 Directors' Remuneration

	Year ended 28 February 2002	Period ended 28 February 2001
	£000	£000
Fees paid to directors	10	10
Amounts paid to third parties in consideration for the services of directors	43	45
	<u>53</u>	<u>55</u>

The fees paid in respect of directors during the period were as follows:

	£	£
A J Davison (Chairman)	12,500	13,219
S P Edwards (resigned 14 March 2002)	10,000	10,575
N P Lewis	10,000	10,575
G R Power (appointed 14 March 2002)	–	–
E H Sharp	10,000	10,575
T P Sooke	10,000	10,575

N P Lewis is a director of and shareholder in Downing Corporate Finance Limited (Downing). G R Power is and S P Edwards was, until his resignation on 14 March 2002, a director of ProVen Private Equity Limited (ProVen). ProVen and Downing are potential beneficiaries of the company's performance incentive arrangements. These arrangements are described in more detail in Note 17. Except as noted above, or as otherwise disclosed in these accounts, none of the directors received any other remuneration or benefit during the year.

### 5 Tax Charge/(Credit) on Ordinary Activities

	Year ended 28 February 2002		Period ended 28 February 2001	
	Revenue	Capital	Revenue	Capital
	£000	£000	£000	£000
Corporation tax payable at 22.0% (25.5%)	196	(118)	221	(84)
Prior year adjustment	1	–	–	–
	<u>197</u>	<u>(118)</u>	<u>221</u>	<u>(84)</u>

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 6 Dividends

	Year ended 28 February 2002	Period ended 28 February 2001
	£000	£000
Interim dividend paid – 1.0p per share (2001 – nil)	220	–
Final proposed – 1.3p per share (2001 – 2.4p)	<u>285</u>	<u>527</u>
	<u>505</u>	<u>527</u>

### 7 Return per Ordinary Share

The revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £522,000 (2001 – £575,000) and on 21,954,944 ordinary shares (2001 – 20,720,492 ordinary shares), being the weighted average number of ordinary shares in issue during the year.

The capital return per ordinary share is based on net realised and unrealised capital loss of £1,673,000 (2001 – profit of £164,000) and on 21,954,944 ordinary shares (2001 – 20,720,492 ordinary shares), being the weighted average number of ordinary shares in issue during the year.

### 8 Fixed Asset Investments

	Year ended 28 February 2002	Period ended 28 February 2001
	£000	£000
Unquoted investments	3,535	2,212
AiM traded investments	2,960	2,024
Listed fixed interest investments	11,492	14,026
Unlisted fixed interest investments	<u>1,300</u>	<u>2,908</u>
	<u>19,287</u>	<u>21,170</u>

Movements in investments during the year are summarised as follows:

	Unquoted £000	AiM traded £000	Listed fixed interest £000	Unlisted fixed interest £000	Total £000
Valuation at 28 February 2001	2,212	2,024	14,026	2,908	21,170
Purchases at cost	2,213	1,192	15,424	4,400	23,229
Disposal – proceeds	–	–	(17,681)	(6,005)	(23,686)
– realised (loss)/gain on disposal	–	–	(142)	5	(137)
Decrease in unrealised appreciation	<u>(890)</u>	<u>(256)</u>	<u>(135)</u>	<u>(8)</u>	<u>(1,289)</u>
Valuation at 28 February 2002	<u>3,535</u>	<u>2,960</u>	<u>11,492</u>	<u>1,300</u>	<u>19,287</u>
Book cost at 28 February 2002	4,425	2,994	11,638	1,300	20,357
Unrealised depreciation at 28 February 2002	<u>(890)</u>	<u>(34)</u>	<u>(146)</u>	<u>–</u>	<u>(1,070)</u>
	<u>3,535</u>	<u>2,960</u>	<u>11,492</u>	<u>1,300</u>	<u>19,287</u>

All investments traded on AiM consist of equity shares.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 8 Fixed Asset Investments *continued*

The overall loss on investments for the year shown in the Statement of Total Return is analysed as follows:

	Year ended 28 February 2002	Period ended 28 February 2001
	£000	£000
Net realised (loss)/ profit on disposal	(137)	119
(Decrease)/increase in unrealised appreciation	<u>(1,289)</u>	<u>219</u>
	<u>(1,426)</u>	<u>338</u>

### 9 Unlisted Investments

The costs and carrying value of investments in unquoted companies and those whose shares are traded on AiM were as follows:

	28 February 2002	28 February 2002	28 February 2001	28 February 2001
	Cost	Carrying value	Cost	Carrying value
	£000	£000	£000	£000
<b>Oasis Healthcare plc*</b>				
Ordinary shares	<u>670</u>	<u>1,091</u>	<u>500</u>	<u>620</u>
<b>The Sport Entertainment &amp; Media Group Plc*</b>				
Ordinary shares	<u>800</u>	<u>807</u>	<u>—</u>	<u>—</u>
<b>UBC Media Group plc*</b>				
Ordinary shares	<u>501</u>	<u>631</u>	<u>501</u>	<u>681</u>
<b>Chiaros Holdings Limited (T/A TMI)</b>				
Ordinary shares	240	—	240	240
Secured loan stock	<u>560</u>	<u>560</u>	<u>560</u>	<u>560</u>
	<u>800</u>	<u>560</u>	<u>800</u>	<u>800</u>
<b>Linguaphone Group plc</b>				
Ordinary shares	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>
<b>mergermarket Limited</b>				
Ordinary shares	<u>500</u>	<u>500</u>	<u>—</u>	<u>—</u>
<b>Bond iT Limited</b>				
Ordinary shares	59	—	59	59
Preference shares	<u>441</u>	<u>441</u>	<u>441</u>	<u>441</u>
	<u>500</u>	<u>441</u>	<u>500</u>	<u>500</u>

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 9 Unlisted Investments *continued*

	28 February 2002 Cost £000	28 February 2002 Carrying value £000	28 February 2001 Cost £000	28 February 2001 Carrying value £000
<b>Baby Innovations S.A. (T/A Steribottle)</b>				
Funding units	<u>416</u>	<u>416</u>	—	—
<b>Copyright Promotions Group Limited</b>				
Ordinary shares	51	51	—	—
Unsecured loan notes	<u>344</u>	<u>344</u>	—	—
	<u>395</u>	<u>395</u>	—	—
<b>Espresso Broadband Limited</b>				
Ordinary shares	262	—	—	—
Loan notes	<u>358</u>	<u>358</u>	—	—
	<u>620</u>	<u>358</u>	—	—
<b>Pilat Media Global plc*</b>				
Ordinary shares	<u>222</u>	<u>222</u>	—	—
<b>Espotting Media (UK) Limited</b>				
Convertible loan notes	<u>200</u>	<u>200</u>	—	—
<b>The Keen Group Limited</b>				
Ordinary shares	165	—	165	165
Secured loan Stock	<u>330</u>	<u>165</u>	<u>247</u>	<u>247</u>
	<u>495</u>	<u>165</u>	<u>412</u>	<u>412</u>
<b>Transcomm plc*</b>				
Ordinary shares	<u>380</u>	<u>159</u>	<u>380</u>	<u>347</u>
<b>I D Data plc*</b>				
Ordinary shares	<u>420</u>	<u>50</u>	<u>420</u>	<u>376</u>
<b>TOTALS</b>	<u>7,419</u>	<u>6,495</u>	<u>4,013</u>	<u>4,236</u>

\*Investments traded on the AiM market

Provisions totalling £890,000 have been made against unquoted investments as at 28 February 2002 (2001: £nil). Since 28 February 2002, two new investments have been completed at a cost of £1.0 million and there has been a partial redemption of loan stock by Copyright Promotions Group. A further £850,000 has been invested in follow-on investments in four portfolio companies.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 10 Significant Interests

Details of shareholdings in those companies where the company's holding represents (1) more than 10% of the allotted equity share capital of any class, (2) more than 10% of the total allotted share capital or (3) more than 10% of the assets of the investee company itself, are given below. All of the companies named are incorporated in Great Britain.

Company	Class of share	Number held	Proportion of class held
Chiaros Holdings Limited (t/a TMI)	'A' ordinary shares (50p)	239,986	53.3%
Bond iT Limited	'B' ordinary shares (£1)	50,000	100.0%
	'C' preferred ordinary shares (£1)	8,750	100.0%
	Preference shares (10p)	441,250	25.0%
The Keen Group Limited	'A' ordinary shares (£1)	33,990	33.0%
mergermarket Limited	'B' ordinary shares (1p)	199,474	33.3%
Copyright Promotions Group Limited	Ordinary shares (10p)	51,000	12.2%
Espresso Broadband Limited	'A' ordinary shares (10p)	2,378,324	33.0%

The results of these companies have not been incorporated in the revenue account.

Unless stated to the contrary, all classes of ordinary shares and none of the classes of preference shares have voting rights.

### 11 Debtors

	28 February 2002	28 February 2001
	£000	£000
Accrued income	194	279
Prepayments	1	—
	<u>195</u>	<u>279</u>

### 12 Creditors

	28 February 2002	28 February 2001
	£000	£000
Trade creditors and accruals	210	169
Corporation tax payable	78	137
Proposed dividend	285	527
	<u>573</u>	<u>833</u>

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 13 Share Capital

	28 February 2002 £000	28 February 2001 £000
<b>Authorised</b>		
25,000,000 ordinary shares of 5p each	<u>1,250</u>	<u>1,250</u>
<b>Allotted, called up and fully paid</b>		
21,944,502 (2001 – 21,970,502) ordinary shares of 5p each	<u>1,097</u>	<u>1,099</u>

During the year 26,000 ordinary shares of 5p were bought by the company for a total consideration of £22,036. These shares were subsequently cancelled.

### 14 Reserves

	Share premium account £000	Special reserve £000	Capital redemption reserve £000	Capital reserve – realised £000	Capital reserve – unrealised £000	Revenue reserve £000
At 28 February 2001	19,773	–	–	(55)	219	48
Share buy back and cancellation	–	–	2	–	–	(22)
Transfer to special reserve	(19,773)	19,773	–	–	–	–
Realised on disposal	–	–	–	(137)	–	–
Unrealised loss on valuation	–	–	–	–	(1,289)	–
Management fee capitalised	–	–	–	(365)	–	–
Tax effect of capital items	–	–	–	118	–	–
Net revenue retained for the year	–	–	–	–	–	17
At 28 February 2002	<u>–</u>	<u>19,773</u>	<u>2</u>	<u>(439)</u>	<u>(1,070)</u>	<u>43</u>

### 15 Reconciliation of Movements in Shareholders' Funds

	Year ended 28 February 2002 £000	Period ended 28 February 2001 £000
At 28 February 2001	21,084	–
Total return after tax and dividends	(1,656)	212
Net proceeds of share issues	–	20,872
Share buy back and cancellation	(22)	–
At 28 February 2002	<u>19,406</u>	<u>21,084</u>

### 16 Net Asset Value per Share

Net asset value per share is based on net assets at 28 February 2002 of £19,406,000 (2001 – £21,084,000) and on 21,944,502 ordinary shares (2001 – 21,970,502 ordinary shares) in issue at that date.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 17 Performance Incentive Arrangements

Under the terms of the investment management agreement and the administration agreement outlined in Note 2, ProVen Private Equity Limited and Downing Corporate Finance Limited are potential beneficiaries of the company's performance incentive arrangements. ProVen is entitled to receive between 90% and 95% of any performance incentive paid, and Downing between 5% and 10%.

The performance incentive will not be triggered until the company's profits available for distribution are equivalent to not less than 7% per annum (compound) on each share and net assets per share are £1.00 or more. This incentive will be equal to 20% of the company's profits (derived from both investment income and capital profits) available for distribution in excess of 7p per share in each accounting period, before taking into account such incentive. The performance incentive will first be calculated in respect of the period to 28 February 2003 and annually thereafter. The incentive (if any) will be payable following approval of the relevant audited accounts by shareholders and will be in the form of cash, shares or share options in the company.

In the event that ProVen or Downing elects to receive such incentives by way of share options, the value per option will be calculated by subtracting the exercise price per share from the net asset value per share at the date on which the options become exercisable. The maximum number of options that may be issued without shareholder approval is capped at 15% of the issued share capital of the company from time to time. ProVen and Downing will be entitled to cash compensation in the event that the value of the incentive exceeds the amount in respect of which the company is capable of granting share options.

### 18 Risk Management and Financial Instruments

A statement of the company's principal objectives is given on page 2. In order to achieve these objectives the company will invest its funds primarily in qualifying holdings in unlisted companies and companies traded on AIM, which by their nature may entail a higher degree of risk than investments in large listed companies. The company has not entered into any derivative transactions, and does not expect to do so in the foreseeable future. As a venture capital trust, the company invests in securities for the long term, and it is the company's policy that no trading in investments or other financial instruments shall be undertaken.

#### Market price risk

The main risks arising from the company's investing activities are market price risk, representing the uncertain realisation values of the company's investments. The directors aim to limit the risk attaching to the portfolio as a whole by careful selection of investments and by maintaining a wide spread of investments in terms of financing stage, industry sector and geographical location.

#### Interest rate risk

The company finances its activities through retained profits including realised and unrealised capital profits, and through the issue of equity shares. The company has not entered into any borrowings. The company holds a portfolio of fixed-interest securities that is managed by external managers in accordance with policy guidelines laid down and regularly reviewed by the Board. The value of this portfolio is subject to the risk associated with changes in interest rates. Details of interest bearing assets are given below under Financial Assets.

#### Liquidity risk

There is liquidity risk associated with unquoted investments, which are not readily realisable. At present the majority of the company's assets are held in its fixed interest portfolio, primarily in UK government securities and short term certificates of deposit, which are readily realisable.

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year to 28 February 2002

### 18 Risk Management and Financial Instruments *continued*

#### Credit risk

Credit risk is the risk of a borrower defaulting on either an interest payment or the capital sum of a loan. The credit risk associated with the company's fixed-interest investments in unquoted companies is controlled as part of the investment process outlined under market price risk above, and wherever possible, the company will take security for such advances. Details of the loans outstanding to investee companies is shown below.

#### Currency risk

All of the company's assets and liabilities are denominated in sterling.

#### Financial assets

The interest rate and maturity profile of the company's fixed and floating rate investments is set out below:

	28 February 2002 £000
<b>UK Treasury</b>	
8% 10/06/03	<u>11,492</u>
<b>Certificates of Deposit</b>	
Royal Bank of Scotland 4.405% 25/02/03	100
Landesbank 4.4% 25/02/03	<u>1,200</u>
	<u>1,300</u>
<b>Loans to investee companies</b>	
Chiaros Holdings Limited 10% March 2006	560
Copyright Promotions Group Plc 10% July 2002	344
Espresso Broadband Limited 7% May 2003	358
Spotting Media (UK) Limited 8% December 2002	200
The Keen Group Limited LIBOR + 2% 2005	<u>165</u>
	<u>1,627</u>

#### Fair values

The investments of the company are valued by the directors in accordance with the guidelines issued by the British Venture Capital Association, and the carrying values are considered to approximate the fair value of the investments.

### 19 Related Party Transactions

ProVen VCT is managed by ProVen Private Equity Limited, and has entered into a co-investment agreement with, amongst others, Guinness Flight VCT plc and ProVen Media VCT plc, for whom ProVen Private Equity Limited acts as adviser and manager respectively. Certain directors of ProVen VCT plc serve on the boards of these companies. Tom Sooke is Chairman of ProVen Media VCT plc, whilst Andrew Davison, Nick Lewis and Gordon Power are non-executive directors of that company. Ernest Sharp is a non-executive director of Guinness Flight VCT plc.

### 20 Capital Commitments

Investments approved at the end of the year which have since been completed amounted to £137,881. There were no approvals at the year end that relate to investments that have not yet completed.

## SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

At the annual general meeting being convened for 7 August 2002 ("AGM"), there will be proposed special resolutions, as Resolutions No 5 and 6.

- 1 Resolution No. 5 will be proposed as a special resolution whereby the company will seek to renew its authority to make market purchases of its own shares by utilising distributable reserves of the company.

### **Background to the proposal**

The directors consider that it is in the best interests of the company and its shareholders for the company to be in a position to make occasional market purchases of its shares (which are then automatically cancelled) with the aim of reducing any discount and increasing the net asset value per share of the remaining shares. In the view of the directors, the awareness in the market that the company has such a capability may tend to moderate the scale of any discount that may emerge and the action of buying shares may enable any such discount to be narrowed. The Board has a general authority under its articles of association to make market purchases of its own shares. Accordingly, the Board proposes, as Special Business at the forthcoming AGM, to seek the authority for the company to make market purchases of its own ordinary shares. A company is permitted to purchase its own shares out of the special reserve created from the cancellation of the company's Share Premium Account, subject to its Articles of Association (see 2 below), its distributable reserves or from the proceeds of a fresh issue of shares made for the purposes of such purchases. The authority being sought will enable the company to make such occasional purchases out of the special reserve or any distributable reserves.

### **Purchase of ordinary shares by the company**

Purchases of ordinary shares will be made within guidelines established from time to time by the Board, but only if it is considered that such purchases would be to the advantage of the company and its shareholders as a whole. Purchases will only be made in the market for cash at prices below the prevailing net asset value per ordinary share, thereby enhancing the net asset value per ordinary share for the company's remaining shareholders.

Under the The Listing Rules of the Financial Services Authority, the maximum price which can be paid by the company is 5 per cent above the average of the market value of the ordinary shares for the five business days preceding the purchase. Ordinary shares that are purchased will be cancelled. In making purchases, the company will deal only with member firms of the London Stock Exchange. Purchases of ordinary shares will be funded from the use of distributable reserves but so that the use of such reserves will not adversely impact on the company's stated policy of maximising tax free dividend distributions to shareholders.

### **Risk Factors**

Shareholders who sell their ordinary shares within three years of subscription will lose, and will have to repay, any income tax relief previously given on subscription. Any capital gains deferred on subscription will crystallise at that time.

Any share purchases by the company may result in a reduction of the discount to net asset value at which the ordinary shares trade. However, the effect of market forces cannot be predicted with certainty and this result cannot be guaranteed. Furthermore, even if initially the desired result is achieved, it is possible that the discount may widen further over the medium to long term.

### **Taxation on company share purchase**

The company, when it purchases ordinary shares, will be treated as repaying part or all of the amount of capital which is treated as paid up on each ordinary share for tax purposes. Stamp duty at the rate of 50p per £100 or part thereof of the purchase price of any ordinary share will be payable by the company. **This information is based on the law and practices currently in force in the United Kingdom and is not a complete statement of tax legislation affecting shareholders of venture capital trusts.**

## SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING *continued*

- 2 Resolution No. 6 will be proposed as a special resolution whereby the company will seek to amend its Articles of Association following the cancellation of the share premium account on 23 January 2002 in order that it does not lose its investment company status.

### **Background to the proposal**

In January of this year the company obtained Court approval to cancel its share premium account, the purpose of which was to create a reserve, which arises upon the cancellation of a company's share premium account, out of which it may purchase its shares in the market. However, under the company's existing articles of association, whilst the company remains an investment company that reserve may not be used to purchase shares in the company and as it is not proposed to revoke the company's investment company status at this stage, in order to utilise those reserves for these purposes it is proposed to alter the company's articles to permit this, and that is the purpose of Resolution 6.

### **Action to be taken**

The AGM is being convened for 7 August 2002 at 11.00 a.m. A form of proxy is enclosed for use at the AGM. Whether or not you intend to be present at the meeting, you are asked to return the enclosed form of proxy in accordance with the instructions printed on it so as to arrive no later than 11.00 a.m. on 5 August 2002. Completion and return of a form of proxy will not preclude you from attending the meeting and voting in person, should you so wish. **Shareholders are urged to seek independent financial advice from a person authorised under the Financial Services Act 1986 when considering whether or not to approve Resolutions No 5 & 6. If you have sold or transferred all or part of your ordinary shares in ProVen VCT plc, you should forward this document, together with the form of proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.**

### **Directors' recommendation**

The directors of the company believe that shareholders should vote in favour of the proposals described, as they intend to do in respect of their own beneficial holdings amounting to 64,000 ordinary shares (representing 0.3 per cent of the issued share capital of the company) and that they are in the best interests of shareholders.

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the second annual general meeting of ProVen VCT plc will be held at 42 Craven Street, London WC2N 5NG on 7 August 2002 at 11.00 a.m. for the following purposes:

### ORDINARY BUSINESS

1. To receive, consider and adopt the financial statements for the year to 28 February 2002 and the directors' and auditors' reports thereon.
2. To declare a final dividend of 1.3p per share, net in respect of the year to 28 February 2002.
3. To re-elect A J Davison as a director.
4. To re-appoint Deloitte & Touche as auditors of the company until the conclusion of the next annual general meeting at which accounts for the company are presented and to authorise the directors to agree their remuneration.

### SPECIAL BUSINESS

To consider and if thought fit, pass the following Resolutions as Special Resolutions:

5. THAT the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 5p each in the company ("ordinary shares") provided that:
  - (a) the maximum number of ordinary shares so authorised to be purchased is 2,194,450;
  - (b) the minimum price which may be paid for an ordinary share shall be 5p;
  - (c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased;
  - (d) the authority conferred comes to an end at the conclusion of the next annual general meeting of the company or upon the expiry of 15 months from the passing of this resolution, whichever is the later; and
  - (e) that the company may enter into a contract to purchase its ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.
6. To amend the company's Articles of Association by :
  - (a) deleting in its entirety the first sentence of sub-clause 140.2 and adding in its place the following wording:

"At any time when the company has given notice in the prescribed form (which has not been revoked) to the registrar of companies of its intention to carry on business as an investment company ("a Relevant Period") distribution of the company's capital profits (within the meaning of Section 266(2)(c) of the Act) otherwise than by way of the redemption or repurchase of any of the company's own shares in accordance with Section 160 or 162 in Chapter VII of Part V shall be prohibited";
  - (b) deleting from the third sentence of sub-clause 140.2 the words "and all other monies which are considered by the Board to be in the nature of accretion to capital"; and
  - (c) inserting at the end of the penultimate sentence of sub-clause 140.2 the following words:

"otherwise than by way of the redemption or repurchase of any of the company's own shares in accordance with Section 160 or 162 in Chapter VII of Part V of the Act".

By Order of the Board  
Hutton Corporate Services Limited  
Secretary



42 Craven Street  
London  
WC2N 5NG  
28 May 2002

### NOTES

- (a) A member entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member.
- (b) A form of proxy is enclosed which, to be effective, must be completed and delivered to the registrars of the company, Northern Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA so as to be received by no later than 48 hours before the time the annual general meeting is scheduled to begin. The completion and return of the form of proxy will not affect the right of a member to attend and vote at the annual general meeting.

PROVEN VCT PLC  
Print of Special Resolutions passed on 7 August 2002

5. THAT the company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 5p each in the company ("ordinary shares") provided that:
- (a) the maximum number of ordinary shares so authorised to be purchased is 2,194,450;
  - (b) the minimum price which may be paid for an ordinary share shall be 5p;
  - (c) the maximum price, exclusive of expenses, which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased;
  - (d) the authority conferred comes to an end at the conclusion of the next annual general meeting of the company or upon the expiry of 15 months from the passing of this resolution, whichever is the later; and
  - (e) that the company may enter into a contract to purchase its ordinary shares under this authority prior to the expiry of this authority which would or might be completed wholly or partly after the expiry of this authority.
6. To amend the company's Articles of Association by:
- (a) deleting in its entirety the first sentence of sub-clause 140.2 and adding in its place the following wording:  
  
"At any time when the company has given notice in the prescribed form (which has not been revoked) to the register of companies of its intention to carry on business as an investment company ("a Relevant Period") distribution of the company's capital profits (within the meaning of Section 266(2)(c) of the Act) otherwise than by way of the redemption or repurchase of any of the company's own shares in accordance with Section 160 or 162 in Chapter VII of Part V shall be prohibited";
  - (b) deleting from the third sentence of sub-clause 140.2 the words "and all other monies which are considered by the Board to be in the nature of accretion to capital"; and
  - (c) inserting at the end of the penultimate sentence of sub-clause 140.2 the following words:  
  
"otherwise than by way of the redemption or repurchase of any of the company's own shares in accordance with Section 160 or 162 in Chapter VII of part V of the Act".

  
Hutton Corporate Services Limited  
Secretary