

Companies House
3946235

Matrix Venture Fund VCT plc

**Annual Report and
Financial Statements 2002**



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CORPORATE POLICY AND FINANCIAL HIGHLIGHTS

for the year ended 30 April 2002

Objectives

The objective of Matrix Venture Fund VCT plc ("Matrix") is to provide private investors with an attractive return from a portfolio of investments in fast-growing companies whose products or services depend to a significant extent on the application of new technology, including:-

- internet and e-business
- information technology
- telecommunications and media.

Venture Capital Trust Status

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

Performance Summary

Capital values	30 April 2002	30 April 2001
Net asset value per Ordinary Share	70.34p	88.69p
Total assets	£9,271,657	£11,690,524

Revenue and dividend

Earnings per Ordinary Share	1.35p	1.07p
Dividend per Ordinary Share	1.35p	0.93p

CHAIRMAN'S STATEMENT

It is a pleasure to present the second annual report and financial statements of Matrix Venture Fund VCT plc. You will remember that the public offer launched on 10 May 2000 at 100p per share raised £12,388,237 (net).

Results for the year ended 30 April 2002

The results for the year ended 30 April 2002 are set out in the following pages. The total loss (after tax) attributable to the Ordinary Shareholders before the recommended dividend was £2,240,929 (2001: £574,572) and the net asset value per Ordinary Share at 30 April 2002 was 70.34p compared with 88.69p for the period ended 30 April 2001.

Dividend

The Board recommends a dividend of 1.35p per Ordinary Share for the year ended 30 April 2002 (2001: 0.93p) to Ordinary Shareholders on the register at the close of business on 26 July 2002. Subject to shareholder approval at the Annual General Meeting on 6 September 2002, notice of which is given at page 28, these payments should be received on 16 September 2002. The after tax revenue return before net capital losses was 1.35p per Ordinary Share for the year to 30 April 2002 (2001: 1.07p).

Overview

In the difficult economic environment which has prevailed over the past financial year, steady progress has been made towards the objective of having the Company's funds fully invested by April 2003 (whilst retaining an adequate cash reserve to provide follow-on funding).

The second financial year of activity has seen a continued high volume of proposals being received and evaluated by the Company's Venture Capital Fund Advisers, Matrix Private Equity Limited. The global investment climate has, however, been challenging over the course of the past year and a lack of confidence in the quoted markets has led to very low levels of corporate activity. This has had a knock-on effect on the unquoted market where many investment propositions have failed to receive funding. One consequence of this, however, is that valuations are now at a level which reflects a more realistic balance between risk and reward. This should make for a more stable environment when market confidence finally returns.

As at 30 April 2002, £6.2m had been committed to 11 companies. One new investment was completed in this financial year, and follow-on funding has been provided to three portfolio companies. Together, all these investments represent an aggregate investment of 50 per cent of the net funds raised under the public offer. As at 30 April 2002, the capital reserves show a capital base of £9,271,657, struck after a cumulative capital loss of £3,116,979. Details of the full Venture Capital Portfolio as at 30 April 2002 are given in the Adviser's and Manager's Reports.

The investment in FootFall (see across), together with several additional investments anticipated to be completed during the next few months, lead the Company's fund advisers 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 of its funds invested in qualifying shares and securities by 30 April 2003.

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. We will, in any event, always follow a consistent and prudent valuation policy. The investments that are quoted on AIM and the fixed interest securities are carried at market value.

Events since the year end

Since the beginning of the current financial year, in June 2002, the Company has completed an investment of £750,000 (as part of a syndicate investing £2.65m) in FootFall Ltd, which is a leading provider of sophisticated people-counting solutions and related information services. It has a strong position in its market, providing data to shopping centres both in the UK and in France and is now poised to penetrate the broader retail market and continue its geographic expansion. The FootFall Index has become well publicised as a statistical measure of foot traffic in retail centres.

Board

Darryl Mattocks resigned as a Director on 1 July 2002. David Brougham will not be seeking re-election at the Annual General Meeting on 6 September 2002. I would like to take this opportunity to thank Darryl and David for their valuable contribution as members of the Board.

Conclusion

There is no doubt that economic conditions have deteriorated markedly since the Fund was launched. The continuing recession in the telecommunications sector and the slowing pace of growth in other technology sectors have created very difficult trading conditions for most companies, especially those at an early stage of development. Nevertheless, the Board is encouraged that the majority of the current portfolio are well funded and achieving their budgets.

The time period for realising investments has normally been between 3 and 5 years. During the recent technology driven stock market boom, this time period has shortened. In current depressed markets it should be expected that companies will take longer to mature to a stage suitable for exit. The Board will, however, continue to look for opportunities to realise a profit ahead of expectations if this is in the shareholders' interests.

I would like to take this opportunity to thank all shareholders for their continuing support of the Company and very much hope to have the pleasure of welcoming you to the Annual General Meeting on 6 September 2002.

Michael Cumming

Chairman

12 July 2002

ADVISER'S AND MANAGER'S REPORTS

Venture Capital Fund Adviser's Report

Portfolio Overview

Matrix Private Equity Limited advises the Company in respect of investments made within the Venture Capital Fund. During the year ended 30 April 2002, the team received and evaluated over 680 investment proposals, from which Matrix Venture Fund VCT plc made one investment (in Espotting) at a cost of £500,000.

The problems of the telecommunications, media and technology sectors have been well documented. The slow down in spending has affected all companies and those at an early stage of development are particularly vulnerable. In common with many other investors we have spent a great deal of time helping the existing investments and have recommended further investments of £150,000 into ImageCom, £250,000 into Situp.com and £100,000 into ego systems over the past year.

Unfortunately, despite strenuous efforts by all parties, iDesk was unable to survive the loss of a major call-centre contract, combined with the dramatic slowdown of customer spending on its managed services, and went into receivership in April 2002. Despite considerable support from its investors, ImageCom was unable to trade through its problems as outlined below and the business is now being run with the support of its bankers until it is sold. ego systems has, in common with most businesses in the telecommunications industry, faced a severe, and for ego systems an ultimately insuperable, challenge in selling its sophisticated unified communications services. The main division failed to achieve significant sales and has run out of cash. It was put into liquidation on 3 July 2002.

Despite these setbacks, we continue to believe that the spread of investments the Company has made thus far, together with the continuing strong flow of deals from good quality sources, will provide a sound portfolio over the long term.

The current investment portfolio of the Company as at 30 April 2002 is detailed below.

Callserve Communications Limited

The company provides internet telephony services or Voice over Internet Protocol ("VoIP") from PCs to telephones, worldwide. Using software which is pre-installed, downloaded from the company's website, or available from retailers, a telephone caller can use the internet to route a telephone call at a much reduced cost. Matrix invested as part of a syndicate arranged by Peel Hunt, raising £8.25m to finance the roll-out of the service and facilitate partnering arrangements with software and hardware providers. During the last few months, the company has reached cash break-even.

Results from the latest audited accounts for the year ended 31 March 2001: loss before tax £5,807,786; net assets £4,521,338.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
October 2000	£300,000	At cost	0.78%	3.2%

Clarity Commerce Solutions plc

The company provides EPOS (electronic point of sale) solutions, Customer Relationship Management ("CRM") products and services to the UK hospitality and leisure markets. It floated on AIM in July 2000, raising £2.5m primarily to increase its marketing activities and acquire two small complementary businesses. The flotation was sponsored by Williams de Broë Plc. The company raised £2.6m (via a rights issue) and made a small acquisition in October 2001. The business has grown substantially in the last year and is now trading profitably before amortisation of goodwill.

Results from the latest preliminary audited accounts for the year ended 31 March 2002: loss before tax £221,000; net assets £7,367,000.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
July 2000	£250,000	£158,000	1.44%	1.69%

The investment is valued at the mid-market price on 30 April 2002 of 79p per share.

e-go systems plc

The group provides Unified Messaging ("UM") services to global enterprises. UM consolidates messages delivered to voicemail, mobile phone, e-mail and fax into one mailbox. Telemesser (a subsidiary based in Israel) provides UM support services. Matrix invested as part of a £7.2m fund-raising in September 2000. The group raised a further £5m in October 2001, of which Matrix invested an additional £100,000. Although the trial service was available in May 2001, certain technical problems delayed the launch of the full service until January 2002. At this stage the company sought further funding to enable major customers to be signed but, due to the severe recession in the telecommunications industry this was not forthcoming.

Results from the latest audited accounts for the year ended 31 March 2000: loss before tax £1,151,998; net assets £3,329,413.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
September 2000/ October 2001	£600,000	Nil	3.0%	Nil

Espotting Media (UK) Limited

Espotting is the UK's leader in performance-based advertising through search engines, allowing advertisers to bid against each other for key words in order to achieve prominence in search engine results. The service went live in October 2000 and has been extremely successful to date in signing affiliate deals, increasing search volumes and revenues. Espotting raised funds in December 2001 to finance working capital and an expansion of the business into Continental Europe, of which Matrix invested £500,000.

ADVISER'S AND MANAGER'S REPORTS

Results from the latest audited accounts for the year ended 31 March 2001: loss before tax £1,915,995; net liabilities £1,915,994.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
December 2001	£500,000	At cost	Nil*	5.35%

* The investment is made in Variable Rate Redeemable Secured Loan Notes which, if converted into equity, would represent 2.62% of the voting rights.

Flightstore Inflight Retailing Limited

Flightstore creates electronic airline branded shopping malls containing branded retailers with international delivery capabilities. The proprietary software developed by Flightstore uses existing seatback hardware to deliver a quasi-internet shopping experience on long haul flights. It raised £3.25m from a syndicate of private investors and small institutions in March 2001. The service is now installed on Lauda Air and Swiss Air comprising 19 aircraft. Cathay Pacific will install the service on 24 aircraft in July 2002. There are presently 14 retailers trialling the market.

Results from the latest audited accounts for the year ended 31 December 2001: loss before tax £880,836; net assets £1,677,921.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
March 2001	£750,000	At cost	11.1%	8.02%

i-Desk plc

i-Desk provided internet services to telecommunications companies and Internet Service Providers. The Fund invested as part of a £10.3m fund-raising. In the last year the primary customer base suffered a severe downturn and many went out of business. Despite reducing the size of the company on several occasions the business failed to achieve sufficient turnover to cover its fixed costs. With little prospect of the business being stabilised attempts were made to sell it. Unfortunately, these efforts failed and an Administrative Receiver was appointed in April 2002. There will be no distribution to shareholders.

Results from the latest audited accounts for the year ended 31 December 2000: loss before tax £7,534,017; net assets £8,882,659.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
November 2000	£750,000	Nil	2.17%	Nil

Imagecom Limited

The company's core expertise is in providing the technology to enable high quality live video images to be transmitted over telephone networks by compressing and decompressing the images at either end. This technology has historically been product based but the company is developing it for incorporation in a microchip, thereby dramatically broadening the range of applications. The company has raised several rounds of funding from Thompson Clive and the Fund originally invested £750,000 in December 2000 alongside a similar sum from Thompson Clive. As was reported in the Interim Accounts, additional funds of £750,000 were raised in October 2001, with the Fund investing £150,000. Due to a serious liquidity crisis arising from another party failing to complete its investment, together with the failure to complete a development contract, the company is now trading with the support of its creditors. Therefore, we have provided in full for the cost of investment pending a resolution of the problems.

Results from the latest audited accounts for the 9 months ended 31 January 2002: loss before tax £1,468,000 net liabilities £175,000.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
December 2000/ October 2001	£900,000	Nil	21.22%	Nil

Magicalia Limited

Magicalia has established a network of six community websites focused on enthusiast-based participation sports such as cycling, golf, fishing and outdoor activities. The websites have over 70,000 registered users, forming an important and unique link between manufacturers, retailers and consumers. The company raised £1m from a syndicate of investors in March 2001.

Results from the latest audited accounts for the year ended 31 December 2000: loss before tax £713,555; net assets £205,657.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
March 2001	£400,000	At cost	12.73%	4.28%

Monactive Limited (formerly Xpert Client Systems)

Monactive Limited are a leading provider of software asset management tools, having developed products based on innovative technology including automatic recognition, and a client-based, rather than server-based approach (i.e. using resident agents on PCs) to monitor software usage. The company raised £1.75m from a syndicate of investors in March 2001.

Results from the latest audited accounts for the year ended 31 July 2001: loss before tax £647,735; net assets £17,637.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
March 2001	£500,000	At cost	11.93%	5.35%

ADVISER'S AND MANAGER'S REPORTS

Sit-up.com Limited

The company provides interactive broadcasting material and aims to create a suite of programming concepts for digital TV and the internet. The first service is Bid-up.TV, the UK's first interactive TV-based auction site. Bid-up.TV auctions create an opportunity for manufacturers and distributors to sell a wide range of products across Sky, Telewest and NTL platforms. The company also owns Screenshop, an infomercial channel broadcast on Sky. The Fund initially invested £500,000 as part of a £2.2m syndicate arranged by Peel Hunt. A further £150,000 was provided when the business raised over £5m of expansion capital in February 2001 and £250,000 was committed as part of a £1.65m loan syndicate in March 2002 of which £200,000 had been drawn down by 30 April 2002 and the balance subsequently.

Results from the latest audited accounts for the year ended 31 December 2001: loss before tax £7,475,490; net assets £11,487,713.

Date of investment	Amount invested	Valuation	% Equity/Voting Rights	% of Portfolio
October 2000/ February 2001/ March 2002	£850,000	£885,000	1.74%	9.46%

The Directors of Matrix Private Equity Limited responsible for advising on the Venture Capital Investments are:

Mark Burgess Managing Director (Age 43). Mark is a chartered accountant and an experienced venture capitalist. He joined Cinven, one of the leading European venture capital companies in 1986, became an investment director in 1989 and finance director in 1995. As an investment director he managed a portfolio of £130 million, over half of which was in high technology and/or computer related businesses. He left in 1996 to take a career break whilst retaining his position on the Board of Allied Carpets plc. He has been a non-executive director of Quester Limited and Prelude Technology Investments Limited which specialise in investing in early stage companies. He joined Matrix in April 2000.

Helen Sinclair Director (Age 36). Helen is also an experienced venture capitalist. She has an MBA from INSEAD Business School and was at 3i plc for seven years where she gained wide ranging experience of investing in and managing a portfolio of companies. In 1995, and again in 1996, companies in which she was the lead venture capital investor won the BVCA Small Start Up of the Year Award. She joined Matrix in May 2000.

Matrix Private Equity Limited

Venture Capital Fund Adviser
12 July 2002

9 – 10 Savile Row
London W1S 3PF

Fixed Interest Fund Manager's Report

The net proceeds from the Company's share issue awaiting investment in venture capital are managed by Cazenove Fund Management Limited and have been invested to yield interest. As the Company has been investing in venture capital, the amount of funds in the fixed interest portfolio has reduced. As at 30 April 2002, the portfolio was 51.8% invested across short dated gilts, 34.6% across short dated corporate bonds and the remaining 13.6% is held in the Cazenove Iceberg cash deposit scheme.

Cazenove Fund Management Limited

Fixed Interest Fund Manager
12 July 2002

12 Moorgate
London EC2R 7BH

BOARD OF DIRECTORS

Michael Cumming (Chairman) (Age 61)

Michael was Managing Director of Barclays Private Equity Limited between 1981 and 1994 when he was responsible for providing risk capital for private companies. During this time he served on the boards of various private and publicly quoted companies. He is currently a non-executive director of The East German Investment Trust PLC, Enterprise Capital PLC, Graphite Enterprise Trust PLC and Themis FTSE All-Small Index Trust PLC. In addition, he is a Director of ECTWO Investments PLC, which has traded on OFEX from April 2000 to invest principally in internet related companies. He has been Chairman of Mercia Fund Management Limited since May 1999 which was set up to invest up to £4 million in technology enterprises emerging principally from the Universities of Birmingham and Warwick.

Fredrik Adams (Age 32)

Fredrik is a partner at European Equity Partners (EEP), a €53m venture capital fund investing in high-growth early stage companies with a focus on telecom infrastructure in Northern Europe. He graduated in economics at Lund University in Sweden in 1993. Prior to joining EEP in 1999, he worked in corporate finance at Nomura International in London. He serves on the board of Whatsonwhen.com, an online global events content provider, of Transmode Systems AB, a fibre-optic systems company, and of Comlase AB, a pump laser manufacturer. He is also on the board of Packet Front, a broadband solutions company.

David Brougham (Age 62)

David joined Standard Chartered plc in 1990 as chief credit officer and was made an executive director in 1993. In 1998 he was asked to chair the Indonesian Commercial Bank Steering Committee. He is a non-executive director of Alliance & Leicester plc and Hampden Holdings plc.

Nigel Melville (Age 57)

Nigel is Chairman of Emtelle Holdings Limited, the UK's leading supplier of fibre-optic ducting systems, and a director of a number of other public and private companies. Between 1972 and 1995, he was an investment banker, latterly as a director of Barings responsible for international corporate finance. In 1995 he established Melville Partners to provide strategic consultancy to a range of international companies.

Lawrence Sullivan (Age 48)

Lawrence is a successful entrepreneur in the IT sector. He established a Polish and UK joint venture company in Warsaw in 1990 which he sold for US\$20 million in 1996 to a software company listed on the Warsaw Stock Exchange. His principal business is Computer Systems for Business Limited, of which he is Chairman having founded the company in 1987. He brings experience of founding and managing entrepreneurial business.

Kenneth Vere Nicoll (Age 59)

Kenneth has over 30 years' corporate finance experience and is Managing Director of Matrix Corporate Finance Limited (MCF) and a Director of Matrix-Securities Limited. MCF specialises in providing corporate finance advice to companies from early stage to flotation on AIM and has advised a number of these companies in the past three years.

CORPORATE GOVERNANCE

The Directors of Matrix 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") annexed to the Listing Rules of the United Kingdom Listing Authority. Except as noted below, the requirements of the Combined Code were complied with throughout the year ended 30 April 2002.

The Company's auditors, MRI Moores Rowland, have reviewed this statement in accordance with the guidelines issued by the Accounting Practices Board and their review report is set out on page 26.

The Board

The Company has a Board of six Directors, five 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 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 adopted formal terms of reference for four standing committees which make recommendations to the Board in specific areas.

The Investment Committee comprises three Directors, Michael Cumming (Chairman), Fredrik Adams, and Lawrence Sullivan. The Investment Committee meets as necessary and is responsible for deciding which of the venture capital investments proposed by Matrix Private Equity Limited the Company should accept.

The Audit Committee, comprises three Directors, David Brougham (Chairman), Nigel Melville and Michael Cumming. 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 comprises two Directors, David Brougham (Chairman) and Nigel Melville. The Remuneration Committee, which meets at least once per year, is responsible for considering the levels and make-up of remuneration payable to Directors, severance payments and the resolution of disputes involving any member of the Board, and any actual or potential conflicts of interest which may arise as a result of outside business activities of Board members.

The Nomination Committee comprises two Directors, David Brougham (Chairman) and Nigel Melville. The Nomination Committee, which meets once per year, is responsible for making recommendations to the Board concerning new appointments of executive and non-executive Directors to the Board and Board committees and Board composition, planning, and periodic review of the composition of the Board and its committees and to consider actual or potential conflicts of interest which may arise as a result of outside business activities of Board members.

Relations with shareholders

The Company communicates with shareholders through the circulation of two newsletters each year in addition to the interim and annual reports, and solicits their views where it is appropriate to do so. Individual shareholders are made welcome at the annual general meeting where they have the opportunity to ask questions of the Directors, including the Chairman, as well as the Chairman of the Audit Committee.

Internal financial controls

The Directors have overall responsibility for the Company's system of internal 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.

The Board's appointment of Matrix-Securities Limited as company accountant has enabled much of the financial administration to be delegated. Matrix-Securities Limited has an established system of financial controls, allowing proper accounting records to be maintained and ensuring 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.

Matrix Private Equity Limited as venture capital fund adviser seeks professional advice in relation to the application of the venture capital trust legislation to any company in which the Company is proposing to invest. Martineau Johnson provide legal advice and assistance in relation to the maintenance of VCT tax status for the Company, on the basis of information provided by Matrix Private Equity Limited, and the operation of the agreements entered into with Matrix Private Equity Limited and Cazenove Fund Management Limited.

Roger 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 and applicable rules and regulations are complied with.

Pursuant to the terms of their appointment, Matrix Private Equity Limited advises the Company on venture capital investments. Martineau Johnson, in their capacity as solicitors to the Company, provide custodial services in relation to documents of title relating to equity investments forwarded to them by Matrix Private Equity Limited.

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 Matrix Private Equity Limited, 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.

Following publication of "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull guidance), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, that has been in place for the year under review and up to the date of approval of the annual report and accounts, and that this process is regularly reviewed by the Board and accords with the guidance.

The Audit Committee has carried out a review of the effectiveness of the system of internal 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.

The Board has concluded that, given the appointment of Matrix-Securities Limited as Company accountants and the role of the Audit Committee, it is inappropriate to establish an internal audit function.

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.

DIRECTORS' REPORT

The Directors present their second annual report together with the audited financial statements of the Company for the year to 30 April 2002.

Principal activity and status

The principal activity of the Company is the making of investments in unquoted or AIM-listed companies in the UK. Matrix is an investment company as defined by Section 266 of the Companies Act 1985. It has been granted approval by the Inland Revenue under Section 842AA of the Income and Corporation Taxes Act 1988 as a Venture Capital Trust. The Ordinary Shares were first admitted to the Official List of the UK Listing Authority on 10 July 2001.

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

	30 April 2002 £'000	30 April 2001 £'000
Capital return transferred to reserves	(2,419,266)	(697,712)
Revenue return, before taxation	222,689	159,550
Taxation	(44,352)	(36,410)
Revenue return for the period	178,337	123,140
Dividend to be paid	(177,938)	(123,140)
Transfer to revenue reserves	399	Nil

The Directors recommend a first and final dividend of 1.35p per Ordinary Share for the year ended 30 April 2002 to be paid to shareholders on the register of members on 16 July 2002. This dividend should be paid on 16 September 2002, subject to the approval of shareholders of the Annual General Meeting on 6 September 2002.

Directors

The Directors during the year and their interests in the issued Ordinary Shares of 1p each of the Company were as follows:

	30 April 2002 Ordinary Shares
Michael Cumming	10,225
Fredrik Adams	2,556
David Brougham	20,450
Darryl Mattocks (resigned 1 July 2002)	20,450
Nigel Melville	20,450
Lawrence Sullivan	25,563
Kenneth Vere Nicoll	20,450

There have been no changes to the Directors' share interests between 1 May 2001 and the date of this report.

Biographical notes on the Directors are given on page 9.

None of the Directors has a service contract with the Company but each has a Letter of Appointment.

Two of the Directors retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for reappointment.

With the exception of Kenneth Vere Nicoll, no Director has an interest in any contract to which the Company is a party. Kenneth Vere Nicoll is a director of Matrix-Securities Limited which acts as accountant to the Company and during the year received fees of £30,834 including VAT in respect of this appointment. Matrix-Securities Limited also acts as the promoter of the Company but received no fees during the year in respect of this appointment.

Management

Matrix Private Equity Limited has been appointed as investment advisers in respect of venture capital investments. The principal terms of the Company's advisory agreement with Matrix Private Equity Limited are set out in Note 3 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 3 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.

VCT status monitoring

The Company has retained Martineau Johnson as legal advisers on, *inter alia*, compliance with legislative requirements on the basis of information provided by Matrix Private Equity Limited. Matrix Private Equity Limited seeks professional advice in relation to the application of the venture capital trust legislation to any company in which the Company is proposing to invest. 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.

Directors' and officers' liability insurance

The Company maintains a Directors' and Officers' liability insurance policy.

Auditors

MRI Moores Rowland have expressed their willingness to continue in office and resolutions to reappoint them and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

DIRECTORS' REPORT

Annual General Meeting

A formal notice convening the second Annual General Meeting of the Company on 6 September 2002 is on page 28. In addition to the ordinary business, there is also special business to attend to which is explained below.

Resolution 6

The Company is seeking approval of shareholders to the cancellation of its share premium account, which currently stands at £12,256,431. In order to become effective, the cancellation must be approved by the High Court. The Company intends to seek such approval if it thinks it would be in the best interest to do so at the relevant time. The Directors do not expect the amount of the share premium account at that time to be materially different from the current amount.

The cancellation of the Company's share premium account, if it becomes effective, will provide the Company with a special reserve which can be used to (a) fund buy-backs of ordinary shares as and when it is considered by the Board to be in the best interests of the shareholders and (b) write off existing and future losses should the Company be obliged to take capital losses into account in determining its ability to distribute revenue reserves which might happen if in the future the Company revoked its investment company status. Any purchase of ordinary shares made using the special reserve created by the cancellation of the share premium account will be made for the reasons outlined below, beneath the heading Resolution 9. Resolution 6 is being proposed as a special resolution.

Resolution 7

This Resolution will authorise the Directors to allot relevant securities generally, in accordance with Section 80 of the Companies Act 1985 (as amended), up to a nominal amount of £19,771. The authority will expire on the conclusion of the annual general meeting to be held in 2003.

Resolution 8

This Resolution will sanction, in a limited manner, the disapplication of Section 89 in respect of the authorised but unissued share capital of the Company (not yet committed) and will give the Directors power to (i) allot equity securities with an aggregate nominal value of any amount up to but not exceeding 10 per cent of the issued share capital of the Company where the proceeds of such issue may in part be used to purchase the Company's Ordinary Shares in the market, and (ii) allot equity securities generally from time to time with an aggregate nominal value of any amount up to but not less than 5 per cent of the issued Ordinary Share capital of the Company.

Resolution 9

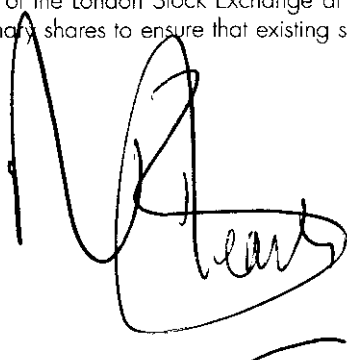
It is proposed by Resolution 9 that the Directors be given authority to make market purchases of the Company's own shares. Under this authority the Directors may purchase shares with an aggregate nominal amount up to but not exceeding 14.99 per cent of the Company's issued Ordinary Share capital. When buying shares, the Directors cannot pay a price per share which is more than 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 before the date on which shares are purchased. This authority will expire at the conclusion of the annual general meeting to be held in 2003.

Whilst generally the Company does not expect shareholders will want to sell their shares within three years of acquiring them because this may lead to a loss of tax relief, the Directors anticipate that from time to time a shareholder may need to sell shares within the relevant period. Front end VCT income tax relief and capital gains reinvestment relief is only obtainable by an investor who makes an investment in the 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 interest of shareholders who may need to sell shares from time to time, the Company proposes to give the Directors the authority to do this for the benefit of new as well as existing shareholders. This authority, when coupled with the ability to issue new shares for the purposes of financing a purchase of shares in the market, enables Directors to purchase shares from a shareholder and effectively to sell on those shares through the Company to a new investor with the potential benefit of full VCT tax relief. In making purchases the Company would deal only with member firms of 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.

By order of the Board

Roger William Blears
Company Secretary

12 July 2002



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 year. In preparing such statements, the Directors are required to:

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

STATEMENT OF TOTAL RETURN

Year ended 30 April 2002

	Notes	Year ended 30 April 2002			Period ended 30 April 2001		
		Revenue £	Capital £	Total £	Revenue £	Capital £	Total £
Gains and losses on investments		—	(2,278,674)	(2,278,674)	—	(552,075)	(552,075)
Income	2	469,379	—	469,379	470,587	—	470,587
Investment management fees	3	(60,094)	(180,282)	(240,376)	(60,682)	(182,047)	(242,729)
Other expenses	4	(186,596)	—	(186,596)	(250,355)	—	(250,355)
Return on ordinary activities before taxation		222,689	(2,458,956)	(2,236,267)	159,550	(734,122)	(574,572)
Tax on ordinary activities	6	(44,352)	39,690	(4,662)	(36,410)	36,410	—
Return attributable to equity shareholders		178,337	(2,419,266)	(2,240,929)	123,140	(697,712)	(574,572)
Dividends in respect of equity shares	7	(177,938)	—	(177,938)	(123,140)	—	(123,140)
Transfer to/(from) reserves		399	(2,419,266)	(2,418,867)	—	(697,712)	(697,712)
Return to shareholders per Ordinary Share:	8	1.35p	(18.35)p	(17.00)p	1.07p	(6.10)p	(5.03)p

The Statement of Total Return incorporates the profit and loss account of the Company.

All revenue and capital items in the Statement of Total Return derive from continuing operations.

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

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

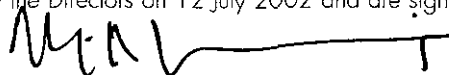
BALANCE SHEET

As at 30 April 2002

	Notes	Year ended 30 April 2002 £	Period ended 30 April 2001 £
Fixed Assets			
Venture capital investments	9a	3,493,099	4,677,596
Fixed interest securities	9a	5,047,590	—
Monies held pending investment	9b	810,979	7,195,517
		<u>9,351,668</u>	<u>11,873,113</u>
Current Assets			
Debtors and prepayments	10	155,639	84,315
Cash at bank		14,679	75,998
		<u>170,318</u>	<u>160,313</u>
Creditors: amounts falling due within one year	11	<u>(250,329)</u>	<u>(342,902)</u>
Net current liabilities		<u>(80,011)</u>	<u>(182,589)</u>
Net assets		<u>9,271,657</u>	<u>11,690,524</u>
Capital and reserves			
Called up share capital	13	131,806	131,806
Share premium account	14	12,256,431	12,256,431
Capital reserve — realised	14	(383,852)	(175,213)
Capital reserve — unrealised	14	(2,733,127)	(522,500)
Revenue reserves	14	399	—
		<u>9,271,657</u>	<u>11,690,524</u>
Net asset value per Ordinary Share	16	<u>70.34p</u>	<u>88.69p</u>

The financial statements were approved by the Directors on 12 July 2002 and are signed on their behalf by:

Michael Cumming }
Nigel Melville } Directors



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

CASH FLOW STATEMENT

Year ended 30 April 2002

	Notes	Year ended 30 April 2002 £	Period ended 30 April 2001 £
Net cash (outflow)/inflow from operating activities	17	(180,950)	104,050
Taxation			
UK corporation tax paid		—	—
Net cash (outflow)/inflow		<u>(180,950)</u>	<u>104,050</u>
Capital expenditure and financial investment			
Purchase of investments — fixed income securities		(12,394,340)	(6,529,575)
Purchase of investments — equities		(950,000)	(5,199,997)
		<u>(13,344,340)</u>	<u>(11,729,572)</u>
Disposals of fixed income securities		7,202,573	6,500,000
Net cash outflow from investing activities		<u>(6,141,767)</u>	<u>(5,229,572)</u>
Dividends			
Equity dividends paid		(123,140)	—
Net cash outflow before financing and liquid resource management		<u>(6,445,857)</u>	<u>(5,125,522)</u>
Management of liquid resources			
Movement in money market and other deposits		6,384,538	(7,195,517)
Financing			
Issue of ordinary shares		—	13,152,348
Expense of share issue		—	(755,311)
Net cash inflow from financing		<u>—</u>	<u>12,397,037</u>
Net cash (outflow)/inflow as at 30 April 2002	18	<u>(61,319)</u>	<u>75,998</u>

The Company holds gilts and bonds primarily as investments and not as liquid resources. Accordingly, movements in the holdings of these investments are shown within investing activities in the Cash Flow Statement rather than within management of liquid resources.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 April 2002

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 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 April 2002. Unlisted investments are stated at Directors' valuation, in accordance with the British Venture Capital Association ("BVCA") guidelines. The Directors' policy in valuing unquoted investments is to carry them at cost except in the following circumstances:

- where a company's underperformance against plan indicates a diminution in the value of the investment, provision against cost is made as appropriate in bands of 25 per cent;
- 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 being based on a comparable listed company or sector but discounted to reflect lack of marketability);
- where a value is indicated by a material arm's 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 right to receive payment is established and there is no reasonable doubt that payment will be received. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. Fixed returns on debt securities are recognised on a time-apportioned basis so as to reflect the effective yield. Provisions are made against such income receivable as soon as it is considered doubtful that such income will be received.

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 further exception that 75 per cent of the fees payable to the investment managers are charged against capital. This is in line with the Board's intended long-term split of returns from the investment portfolio of the Company.

e) Deferred Tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, at rates expected to apply when they crystallise based on current tax rates and law.

Given that the Company is not required to pay tax on its capital gains, no provision has been made in respect of the deferred tax gains or losses arising on the investments.

2 Income

	2002 £	2001 £
Interest receivable		
— from fixed interest securities	368,401	119,345
— from loan stocks	29,603	—
— from bank deposits	71,375	351,242
	<u>469,379</u>	<u>470,587</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 April 2002

3 Investment adviser's and manager's fees

	Revenue 2002 £	Capital 2002 £	Total 2002 £	Revenue 2001 £	Capital 2001 £	Total 2001 £
Matrix Private Equity Ltd	56,422	169,268	225,690	59,051	177,154	236,205
Cazenove Fund Management	3,672	11,014	14,686	1,631	4,893	6,524
	<u>60,094</u>	<u>180,282</u>	<u>240,376</u>	<u>60,682</u>	<u>182,047</u>	<u>242,729</u>

Matrix Private Equity Limited advise the Company on investments in qualifying companies under an agreement dated 10 May 2000 made between the Company and Matrix Private Equity (Managers) Limited, a subsidiary of the Company. This agreement was novated to Matrix Private Equity Limited on 3 July 2001, a subsidiary of Matrix Group Limited which had previously provided to Matrix Private Equity (Managers) Limited the services of Mark Burgess and Helen Sinclair. The Fund Adviser's agreement is for an initial period of five years from 10 May 2000 and thereafter until their appointment is terminated by not less than one year's notice in writing to expire at any time after the initial period.

Matrix Private Equity Limited have received an annual advisory fee of 2.5 per cent of the net assets attributable to the Ordinary Shares Fund. The annual management fees are calculated quarterly and invoiced prior to the end of each quarter, together with any applicable VAT. This fee has been reduced (in order to meet the agreed cap on management fees) by the amount by which normal annual expenses have exceeded 3.75 per cent of net assets. The cap is calculated on a quarterly basis in order to properly recognise the effect of exceptional expenses and fluctuations in the valuation of investments.

The Fund is responsible for external costs such as legal and accounting fees, incurred on transactions that do not proceed to completion ("abort expenses") subject to the cap on total annual expenses referred to above. In line with common practice, Matrix Private Equity Limited retain the right to charge arrangement and syndication fees and Directors' or monitoring fees ("deal fees") to companies in which the Company invests.

Matrix Private Equity Limited, Mark Burgess, Helen Sinclair and the Investment Committee are entitled to be issued with performance warrants granting the right to subscribe for ordinary shares at par which represent 16.67 per cent of the sum of (i) the number of Ordinary Shares allotted pursuant to the Company's prospectus dated 10 May 2000 ("the Offer") plus (ii) the number of Ordinary Shares allotted pursuant to the exercise of performance warrants. The condition for the issue of performance warrants is that cumulative dividend payments are declared or paid amounting to the equivalent of not less than 80p for each Ordinary Share in issue ("the hurdle") at any time before the seventh anniversary of the launch of the Offer.

If the hurdle is not reached until after the seventh anniversary of the launch of the Fund the entitlement to subscribe for a lesser number of shares at a rate of 1.5 per cent per annum until the twelfth anniversary, after which, if the hurdle has not been reached, the performance warrants lapse.

Cazenove Fund Management Limited ("Cazenove") manages the Company's portfolio of gilts and other fixed interest securities under an agreement dated 10 May 2000. The agreement may be terminated by either party with immediate effect. Cazenove receives an annual fee of 0.15 per cent of funds under management, with a minimum of £10,000 per annum plus VAT.

4 Other expenses

	2002 £	2001 £
Directors' remuneration (including NIC)	61,047	78,215
IFA trail commission	12,169	46,497
Administration fees	68,419	61,263
Broker's fees	4,764	5,000
Auditors' fees — audit	16,609	17,288
Registrar's fees	4,198	6,848
Printing	2,323	12,205
Insurance	11,462	9,625
Sundry	5,605	13,414
	<u>186,596</u>	<u>250,355</u>

5 Directors' remuneration

	Fees £	Irrecoverable VAT £	Employers' NI £	2002 Total £	2001 Total £
Directors' emoluments					
Michael Cumming	15,000	—	1,245	16,245	15,804
Fredrik Adams	10,000	—	651	10,651	10,378
David Brougham	10,000	—	651	10,651	10,378
Darryl Mattocks	10,000	—	—	10,000	9,589
Nigel Melville	10,000	1,750	—	11,750	11,033
Lawrence Sullivan	10,000	1,750	—	11,750	11,033
Kenneth Vere Nicoll	(10,000)	—	—	(10,000)	10,000
	<u>55,000</u>	<u>3,500</u>	<u>2,547</u>	<u>61,047</u>	<u>78,215</u>

The fees in respect of Darryl Mattocks, Nigel Melville and Lawrence Sullivan were paid to third parties.

Darryl Mattocks resigned as a Director on 1 July 2002. There were no outstanding fees as at that date.

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.

The Company has no employees other than Directors. The 2001 salary for Kenneth Vere Nicoll has been reversed in 2002, as he had waived his emoluments.

6 Tax on return on ordinary activities

	2002 £	2001 £
Return on ordinary activities before tax	222,689	159,550
Tax on return at standard rate applicable to small companies 19.92% (2001: 20%)	44,352	31,910
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	—	4,500
Relief on capitalised expenses	(35,912)	(36,410)
Excess capitalised expenses brought forward	(3,778)	—
Total amount of current taxation	<u>4,662</u>	<u>—</u>

Tax relief relating to investment management fees is allocated between Revenue and Capital in the same proportion as such fees.

There is no taxation in relation to capital gains and losses.

7 Dividends

	2002 £	2001 £
Ordinary — final proposed of 1.35p (2001: 0.93p) per share:	<u>177,938</u>	<u>123,140</u>

8 Return per Ordinary Share

The revenue return per Ordinary Share is based on the net revenue from ordinary activities after taxation of £178,337 (2001: £123,140) and on 13,180,612 (2001: 11,405,565) 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 capital losses of £208,639 (2001: £175,213), net unrealised capital losses of £2,210,627 (2001: £522,500) and 13,180,612 (2001: 11,405,565) Ordinary Shares.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 April 2002

9 Investments

a Movements in investments during the year are summarised as follows:

	Traded On AIM £	Unlisted £	Preference Shares £	Loan Stock £	Total Venture Capital Investments £	Fixed Interest Securities £
Cost/valuation as at 1 May 2001	265,000	3,787,596	375,000	250,000	4,677,596	—
Purchases at cost	—	100,000	150,000	700,000	950,000	12,394,340
Disposals	—	—	—	—	—	(7,270,620)
Revaluations	(107,000)	(1,502,497)	(525,000)	—	(2,134,497)	(76,130)
Cost/valuation as at 30 April 2002	158,000	2,385,099	—	950,000	3,493,099	5,047,590
Book cost at 30 April 2002	250,000	4,300,096	650,000	950,000	6,150,096	5,123,720
Unrealised gains/(losses)	(92,000)	(1,914,997)	(650,000)	—	(2,656,997)	(76,130)
Cost/valuation as at 30 April 2002	158,000	2,385,099	—	950,000	3,493,099	5,047,590

Within unlisted investments is £99 attributable to the 99% holding in the Company's subsidiary, Matrix Private Equity (Managers) Limited, a company incorporated in England and Wales. The net assets of the subsidiary at 30 April 2002 are £99 and the net profit for the year is £nil.

b Monies held pending investment of £810,979 comprises cash temporarily on deposit with Cazenove and available for future investment.

10 Debtors

	2002 £	2001 £
Amounts due within one year:		
Other debtors	132,511	33,504
Prepayments	23,128	50,811
	155,639	84,315

11 Creditors: amounts falling due within one year

	2002 £	2001 £
Trade creditors	1,054	22,857
Other creditors	4,761	14,562
Accruals	66,576	182,343
Proposed dividend	177,938	123,140
	250,329	342,902

12 Significant interests

At 30 April 2002 the Company held significant investments, amounting to 3% or more of the equity capital of an undertaking, in the following companies:

Company	Equity Investment £	Investment in loan stock and preference shares £	Total investment £	Percentage of investee company's total equity %
Flightstore Inflight Retailing Limited	750,000	—	750,000	11.10
ImageCom Limited	250,000	650,000	900,000	21.22
Magicalia Limited	400,000	—	400,000	12.73
Monactive Limited	250,000	250,000	500,000	11.93

It is considered that, as permitted by FRS9, "Associates and Joint Ventures", the above investments are held as part of an investment portfolio, and that, accordingly, their value to the Company lies in their marketable value as part of that portfolio. In view of this, it is not considered that any of the above represent investments in associated undertakings.

13 Called up share capital

	2002 £	2001 £
Authorised:		
Ordinary Shares of 1p each: 42,000,000	420,000	420,000
Issued:		
Ordinary Shares of 1p each: 13,180,612	131,806	131,806

14 Reserves

	Share premium account £	Capital reserve (realised) £	Capital reserve (unrealised) £	Revenue reserve £
As at 1 May 2001	12,256,431	(175,213)	(522,500)	—
Profit/(loss) on disposal of investments	—	(68,047)	—	—
(Increase)/decrease in unrealised depreciation	—	—	(2,210,627)	—
Capitalised management fees less tax charge	—	(140,592)	—	—
Retained net profit for the year	—	—	—	399
As at 30 April 2002	12,256,431	(383,852)	(2,733,127)	399

The Capital Reserve (unrealised) represents the Company's revaluation reserve.

15 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Equity Shareholders' funds as at 1 May 2001	11,690,524	—
Issue of Ordinary Shares	—	12,388,236
Total recognised gains and losses for the year	(2,240,929)	(574,572)
Proposed dividends on equity shares	(177,938)	(123,140)
Equity Shareholders' funds as at 30 April 2002	9,271,657	11,690,524

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 April 2002

16 Net asset value per Ordinary Share

Net asset value per Ordinary Share is based on net assets at the end of the year, and on 13,180,612 Ordinary Shares, being the number of Ordinary Shares in issue on that date.

17 Reconciliation of net revenue before taxation to net cash outflow from operating activities

	2002	2001
	£	£
Net revenue before taxation	222,689	159,550
Investment management fees charged to capital	(180,282)	(182,047)
Increase in debtors	(71,324)	(84,115)
(Decrease)/increase in creditors and accruals	(152,033)	210,662
Net cash (outflow)/inflow from operating activities	(180,950)	104,050

18 Analysis of changes in net funds

	Cash	Liquid Resources	Total
	£	£	£
At 30 April 2001	75,998	7,195,517	7,271,515
Cash flows	(61,319)	(6,384,538)	(6,445,857)
At 30 April 2002	14,679	810,979	825,658

19 Management of Risk

The Company's financial instruments comprise:

- Equity and non-equity shares and fixed interest securities that are held in accordance with the Company's investment objective as set out in the Venture Capital Fund Adviser's Report and the Fixed Interest Fund Manager's Report.
- Cash, liquid resources and short-term debtors and creditors that arise directly from the Company's operations.

The Board regularly reviews and agrees policies for managing the main risks associated with the Company's financial instruments which are summarised below.

(a) Risk

Business Risk: Companies in which the VCT invests are at risk of failure or underperformance to budget.

Credit Risk: Failure by counterparties to deliver securities which the Company has paid for, or pay for securities which the Company has delivered.

Market Price: Quoted equities and fixed interest stocks have values which are determined by market forces.

Interest Rate: Assets and net revenue may be affected by interest rate movements.

(b) Management of Risk

Business Risk: Investments made are based on a wide variety of criteria and the fund adviser aims to invest in top quality management teams. Extensive due diligence, including customer and management referencing and technical due diligence (as appropriate), is undertaken.

Credit Risk: All transactions are settled on the basis of delivery against payment.

Market Price: The Board manages the market price risk inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Managers. The investment committee meets regularly and reviews the investment performance and financial results, as well as compliance with the Company's objectives.

Interest Rate: The Company's assets include fixed interest stocks, the values of which are regularly reviewed by the Board.

19 Management of Risk continued

The interest rate profile of the Company's financial assets at 30 April 2002 was:

	Financial assets on which no interest paid £	Fixed financial assets £	Variable financial assets £	Total £	Weighted average interest rate %	Average period to maturity (years)
Equity shares	2,543,099	—	—	2,543,099	—	—
Preference shares	—	—	—	—	—	—
Loan stocks	—	950,000	—	950,000	8.42	4.48
Gilts and bonds	—	5,047,590	—	5,047,590	7.17	1.28
Cash	—	—	825,558	825,558	—	—
Total	2,543,099	5,997,590	825,558	9,366,247	—	—

The interest rate profile of the Company's financial assets at 30 April 2001 was:

	Financial assets on which no interest paid £	Fixed financial assets £	Variable financial assets £	Total £	Weighted average interest rate %	Average period to maturity (years)
Equity shares	4,052,596	—	—	4,052,596	—	—
Preference shares	—	375,000	—	375,000	6.00	—
Loan stock	—	250,000	—	250,000	4.00	4.92
Gilts and bonds	—	—	—	—	—	—
Cash	—	—	7,271,515	7,271,515	—	—
Total	4,052,596	625,000	7,271,515	11,949,111	—	—

Financial liabilities: The Company finances its operations through its issued share capital and existing reserves. The only financial liabilities of the Company are creditors which are due within one year and which are disclosed in note 11. No interest is paid on these liabilities.

All assets and liabilities are carried at fair value as determined by the Board of Directors.

20 Capital Commitments

As at 30 April 2002, the Company was committed to a further investment of £50,000 in Sit-up.com Limited which was made on 1 June 2002.

21 Segmental analysis

The operations of the Company are wholly in the United Kingdom

INDEPENDENT AUDITORS' REPORT

To the members of Matrix Venture Fund VCT plc

We have audited the financial statements on pages 16 to 25 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on page 19.

Respective responsibilities of Directors and Auditors

As described on page 15, 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.

Our responsibilities, as independent auditors, are to audit the financial statements in accordance with the relevant United Kingdom legal and regulatory requirements, by statute, the Auditing Practices Board, the rules of the UK Listing Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the rules of the UK Listing Authority regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the corporate governance statement on pages 10 to 11 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the rules of the UK Listing Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report including the corporate governance statement and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

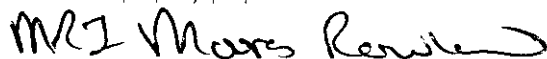
Basis of opinion

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 judgments 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 misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 April 2002 and of the total return and cash flows of the Company for the period from 1 May 2001 to 30 April 2002 and have been properly prepared in accordance with the Company Act 1985.



MRI Moores Rowland

Chartered Accountants

Registered Auditors

12 July 2002

Mitre House
177 Regent Street
London
W1B 4BB

VCT TAX BENEFITS

Taxation Benefits

VCTs provide investors with an attractive method of investing in small to medium-sized unquoted (including AIM listed) trading companies in the UK that would otherwise be difficult to invest in directly. The VCT is itself exempt from paying corporation tax on its chargeable gains. 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 in the amount of an individual's acquisitions of shares in a VCT, each of the following 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 investor's income tax liability to nil. Investments used as security for or financed by a loan may not qualify for relief depending on the circumstances.

B Capital gains tax reinvestment relief

An investor who is resident and ordinarily resident in the UK who realises a chargeable gain may defer tax on that gain by claiming for it to be treated as reinvested in Ordinary Shares. 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 accrued.

C Dividend Relief

An investor who acquires in any tax year Ordinary Shares will not be liable to income tax on dividends paid on those shares. Since 6 April 1999 investors in VCTs are no longer able to benefit from a repayment of a tax credit attached to the dividends they received.

D Relief from capital gains tax on disposal

A disposal by an investor of Ordinary Shares in a VCT will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax.

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

12 July 2002

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the second annual general meeting of Matrix Venture Fund VCT plc will be held on 6 September 2002 at 2.30 pm at the offices of Matrix-Securities Limited, Gossard House, 7-8 Savile Row, London, W1S 3PE for the following purposes:

Ordinary Business

- Resolution 1 To receive the financial statements for the period ended 30 April 2002 together with the reports of the Directors and Auditors thereon.
- Resolution 2 To declare a final dividend of 1.35p per Ordinary Share.
- Resolution 3 To re-elect Michael Cumming as a Director.
- Resolution 4 To re-elect Larry Sullivan as a Director.
- Resolution 5 To reappoint MRI Moores Rowland as Auditors and to authorise the Directors to determine the Auditors' remuneration.

Special Business

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

- Resolution 6 THAT, subject to the sanction of the Court, the amount standing to the credit of the share premium account of the Company be and is hereby cancelled.
- Resolution 7 The Directors be and are hereby authorised to exercise all of the powers of the Company to allot relevant securities which expression shall have the meaning ascribed to it in Section 80 of the Companies Act 1985 ("the Act") up to an aggregate nominal value of £19,771 provided that this authority shall expire on the fifth anniversary of the date of the passing of this resolution unless renewed, varied or revoked by the Company in general meeting (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).
- Resolution 8 The Directors be and are hereby empowered pursuant to Section 95(1) of the Act to allot or make offers or agreements to allot equity securities (which expression shall have the meaning ascribed to it in Section 94(2) of the Act) for cash pursuant to the authority sought in accordance with Section 80 of the Act by Special Resolution 7 set out in this notice of Annual General Meeting as if Section 89(1) of the Act did not apply to such allotment provided that this power shall expire on the conclusion of the annual general meeting to be held in 2002 and provided further that this power shall be limited to the allotment and issue of equity securities in connection with:
- (i) the allotment of equity securities with an aggregate nominal value of up to but not exceeding 10 per cent of the issued Ordinary Share capital of the Company where the proceeds of the allotment are to be used in whole or in part to purchase the Company's Ordinary Shares in the market; and
 - (ii) the allotment of equity securities from time to time with an aggregate nominal value of up to but not exceeding 5 per cent of the issued Ordinary Share capital of the Company.
- Resolution 9 The Company be empowered to make market purchases (within the meaning of Section 163 of the Act) of its own Ordinary Shares provided that:
- (i) the aggregate nominal amount of the Ordinary Shares to be purchased shall not exceed 14.99 per cent of the issued Ordinary Share capital of the Company;
 - (ii) the minimum price which may be paid for Ordinary Shares is 1 pence per share;
 - (iii) the maximum price which may be paid for Ordinary Shares is an amount equal to 105 per cent of the average of the middle market quotation for Ordinary Shares taken from the London Stock Exchange daily official list for the five business days immediately preceding the day on which the Ordinary Shares are purchased;

NOTICE OF ANNUAL GENERAL MEETING

- (iv) the authority conferred by this resolution shall expire on the conclusion of the Annual General Meeting of the Company to be held in the year 2003 unless such authority is renewed prior to such time; and
- (v) 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 such contract.

By order of the Board

Roger William Blears

Company Secretary

St Philips House

St Philips Place

Birmingham

B3 2PP

Date: 19 July 2002

1. 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.
2. 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 notorially certified copy of such power or authority) to the Company's Registrars, Capita IRG Plc, Balfour House, 390-398 High Road, Ilford, Essex, IG1 1BR 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 Companies Act 1985, the Register of Directors' interests will be available for inspection at the Annual General Meeting.

MATRIX VENTURE FUND VCT plc

FORM OF PROXY —

ANNUAL GENERAL MEETING 2002

For use at the Annual General Meeting of Shareholders to be held at 2.30 p.m. on 6 September 2002 and at any adjournment thereof (see note 2 below for the latest date for lodging a Form of Proxy).

I/We
 BLOCK CAPITALS PLEASE
 of
 being a holder of Ordinary Shares in the capital of Matrix Venture Fund VCT plc appoint the Chairman of the Meeting
 or
 of

as my/our proxy to vote for me/us on my/our behalf as indicated below at the Annual General Meeting of the Company to be held at Matrix Securities Limited, Gossard House, 7-8 Savile Row, London, W1S 3PE at 2.30 p.m. on 6 September 2002 and at any adjournment thereof.

Please indicate with an "X" in the spaces below how you wish your votes to be cast on the resolutions in the event of a poll. Subject to any voting instructions so given the proxy will vote, or may abstain from voting, on the resolutions and any other business conducted at the meeting as he may think fit.

No.	Type of Resolution	Resolution	For	Against	Discretion
1	Ordinary	To receive the financial statements for the period ended 30 April 2002			
2	Ordinary	To declare a final dividend			
3	Ordinary	To re-elect Michael Cumming as a Director			
4	Ordinary	To re-elect Larry Sullivan as a Director			
5	Ordinary	To reappoint MRI Moores Rowland as Auditors and authorise the Directors to determine their remuneration			
6	Special	To cancel or reduce the amount standing to the credit of the share premium account			
7	Special	Directors' authority to allot shares			
8	Special	Disapplication of pre-emption rights			
9	Special	Authority to make market purchases of Ordinary Shares			

Signed this day of 2002

Signature.....

Notes:

1. A proxy need not be a member of the Company.
2. This Form of Proxy and the Power of Attorney or other authority, if any, under which it is signed must be completed and returned by post or by hand to the Company's Registrars, Capita IRG Plc, Balfour House, 390-398 High Road, Ilford, Essex, IG1 1BR no later than 48 hours before the time of the Annual General Meeting or any adjournment thereof.
3. In the case of a corporation, this Form of Proxy must be executed under its common seal or under the hand of an attorney or officer duly authorised.
4. In the case of joint holders, the vote of the first named on the register who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders.
5. Delete "the Chairman of the Meeting" if it is desired to appoint any other person and insert his or her name and address.
6. Any alterations to the Form of Proxy should be initialled.
7. The return of the Form of Proxy shall not preclude members from attending in person and voting at the meeting.
8. If this Form of Proxy is returned without stating how the proxy shall vote on any particular matter the proxy will exercise his discretion as to whether, and if so how, he votes.

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BUSINESS REPLY SERVICE
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**Capita IRG Plc
Balfour House
390–398 High Road
ILFORD
Essex
IQ1 1BR**

First fold

Third fold
and tuck in flap opposite

CORPORATE INFORMATION

Directors

Michael Cumming
Fredrik Adams
David Brougham
Nigel Melville
Kenneth Vere Nicoll
Lawrence Sullivan

Secretary

Roger William Blears

Company's registered office and head office

St Philips House
St Philips Place
Birmingham
B3 2PP

Company Registration Number

3946235

Venture Capital Fund Adviser

Matrix Private Equity Limited
9-10 Savile Row
London
W1S 3PF
e-mail: info@matrixpe.com

Fixed Interest Fund Manager

Cazenove Fund Management Limited
12 Moorgate
London
EC2R 6DA

Auditors and Tax Advisers

MRI Moores Rowland
Mitre House
177 Regent Street
London
W1B 4BB

Bankers

Barclays Bank PLC
P.O. Box 777
Wolverhampton
West Midlands
WV1 1XJ

Solicitors and VCT Tax Advisers

Martineau Johnson
St Philips House
St Philips Place
Birmingham
B3 2PP
and at
78 Cannon Street
London
EC4N 6NQ

Sponsors and Stockbrokers

Williams de Broë Plc
1 Waterloo Street
Birmingham
B2 5PG

Promoter and Company Accountant

Matrix-Securities Limited
Gossard House
7-8 Savile Row
London
W1S 3PE

Registrar

Capita IRG Plc
Balfour House
390-398 High Road
Ilford
Essex
IG1 1BR