Oxford Technology 2

Venture Capital Trust plc

Financial Statements

For the year ended 28 February 2003

Contents

Financial highlights

	Year ended 28 February 2003 per ordinary share	Year ended 28 February 2002 per ordinary share
Net asset value at year end after distributions	**84p**	**142p**
Revenue Return	**(1.97)p**	**(0.90)p**
Cumulative Dividend (gross) from incorporation	**1.00p**	**1.00p**
Share Price at year end	**90.0p**	**130.0p**

Statement on behalf of the Board

Oxford Technology 2 has suffered a significant decline in net asset value caused by the large decrease in value in Intellikraft Ltd. The October 2002 newsletter contained the following: *Intellikraft is at a critical stage. It is hoping to achieve first production of the piezoelectric elements which will form the basis of all its future products in October. If all goes smoothly, it may become very valuable; if there are problems, its value may fall sharply.* Unfortunately, there have been problems, both with the production and with the management team. On 8 January 2003, the Board announced that, in light of these problems, the holding in Intellikraft would be revalued to £900,000 (£3.6m at 31 August 2002). In these accounts, the valuation of Intellikraft has been further reduced to £250,000. The sharp fall in valuation of Intellikraft alone accounts for a 56p fall in net asset value of the portfolio as a whole. At 28 February 2003, the net asset value per share was 84p compared to £1.40 at 31 August 2002 and £1.42 at 28 February 2002.

Apart from this, there are general grounds for optimism. The majority of investee companies are making good progress commercially, and the Board is pleased with the development of the portfolio as a whole. Summary details of the individual investments are given below, and they are described in greater detail in the newsletter. Further details of the investee companies are given in note 6.

Company	Date of initial investment	Net cost of investment £000	Percentage of voting rights held by company %
Acumen Business Solutions Ltd	Jul 00	250	58.1
Armstrong Healthcare Ltd	Sep 01	230	18.6
Astron Clinica Ltd	Jan 01	400	2.4
Cipherware Ltd	Sep 01	97	44.9
Commerce Decisions Ltd	Oct 01	200	9.7
Coraltech Ltd	Oct 00	291	12.5
Duncan Hynd Associates Ltd	Nov 01	0	1.2
Equitalk.co.uk Ltd	Jul 01	270	32.5
F1F9 (UK) Ltd	Jan 01	100	9.4
Hardide Ltd	Sep 00	250	12.5
Immunobiology Ltd	Dec 00	150	12.1
InaPlex Ltd	Jan 01	117	20.8
Insense Ltd	Aug 01	266	16.7
Intellikraft Ltd	Jun 00	500	14.1
Jetmask Ltd	Nov 00	466	12.4
M3 Networks Ltd	Mar 01	200	29.4
Membrane Extraction Technology Ltd	May 02	75	7.0
OCRobotics Ltd	Jan 01	225	19.6
Orthogem Ltd	Dec 00	99	49.8
Oxford Sensor Technology Ltd	Oct 00	235	14.7
Plasma Antennas Ltd	Nov 01	150	16.1
Prolysis Ltd	Jun 01	225	3.5
STL Management Ltd	Nov 01	132	13.2
		4,928	

Interest on government stocks and bank deposits together with dividend income produced gross revenue of £68,000 in the year. Net revenue after taxation and management expenses was a deficit of £118,000 and revenue return per share for the period was a loss of 1.97p. Capital return was a loss of 55.92p per share.

John Jackson
Chairman
2 May 2003

Board of Directors

John Jackson, 73, Chairman, worked full time for Philips Electrical Ltd and Philips Electronics and Associated Industries Ltd ("Philips Electronics") in the UK from 1952 to 1980, becoming a director of Philips Electronics in 1966, on whose board he served until early 1994. Since 1980, he has joined the boards of a number of other companies in a wide range of industries, including electronics, engineering, biotechnology, pharmaceuticals and fine chemicals. He is chairman of Xenova Group plc and recently retired as chairman of Celltech Group plc. He is a director of WPP Group plc and Brown & Jackson plc. He has been special adviser to the Korda Seed Capital Fund (unconnected with Seed Capital Ltd), since March 1989, which was established as a £5m fund to invest primarily in technology-based companies, and is chairman of its advisory board. He is particularly interested in high technology business start-ups. In April 1992, he became the non-solicitor chairman of Mishcon de Reya.

Charles Breese, 56, Director, joined Larpent Newton in 1982 and has been managing director of Larpent Newton since 1986. He has played an active role in the launch of a number of technology transfer start-up companies. He qualified as a chartered accountant in 1969 with the firm now known as Grant Thornton and thereafter worked for the firm now known as KPMG from 1969 to 1982. He is an experienced venture capital manager and from 1982 until 1999, Larpent Newton managed The Growth Fund Ltd, a wholly-owned subsidiary of Friends Provident Life Office, which invested in businesses which were unquoted at the time of the initial investment and primarily technology-based early stage and start-up companies (including several technology start-ups out of universities). As well as being a director of the three Oxford Technology VCTs, Charles Breese is also a director of BioScience VCT, which has a complementary strategy to the Oxford Technology VCTs.

Lucius Cary, 56, Director, is the founder and managing director of Seed Capital Ltd, which has specialised in making and managing investments in start-up technology-based businesses since 1983. He has a degree in engineering and economics from Oxford University, an MBA from Harvard Business School and was an engineering apprentice at the Atomic Energy Research Establishment, Harwell. After forming and raising finance for his first business in 1972, he founded "Venture Capital Report" in 1978 and was its managing director for 17 years. In 1996 and 1997, he sold all his shares in the business and reduced his day-to-day involvement in order to concentrate more fully on Seed Capital's investment activities. However, he remained Chairman of Venture Capital Report until December 2001. Seed Capital has managed or advised seven seed capital funds which, between them, have made over 75 investments in early stage and start-up technology companies.

Michael O'Regan, 55, Director, was co-founder in 1973 of Research Machines Ltd which floated on the London Stock Exchange as RM plc in 1994; he was an executive director until 1992 and remains a non-executive director. RM plc is the leading supplier to the UK education market of information technology solutions. He is a non-executive director of several unlisted companies and has been involved in the start-up and early stage financing of a number of technology-based companies. He is chairman of the Hamilton Trust, an educational charity, is joint director of the Hamilton Maths and Reading Projects and is a founder trustee of Peers Early Education Partnership.

Sir Martin Wood, 75, Director, founded the company now known as Oxford Instruments plc in 1959 and is now Honorary President. He is a non-executive director of Oxford Innovation Ltd, which provides technology advice and consultancy. He has long taken an interest in the development of early stage technology companies and has been a director of, and investor in a number of such businesses. He was a founder of the Oxford Trust, which encourages investment in start-up technology companies and provides incubator premises for technology start-ups; he remains a patron of the Oxford Trust. Sir Martin has been a non-executive director of Oxford Seedcorn Capital Ltd (unconnected with Seed Capital Ltd), which has made and managed 19 "seed" investments, 17 of which were in technology companies. He is a non-executive director and shareholder of Synaptica Ltd (an investee company of Oxford Technology Venture Capital Trust), which is concerned with neurodegenerative diseases, based on research at Oxford University.

Report of the Directors

The directors present their report together with financial statements for the year ended 28 February 2003.

Principal activity

The company is an investment company and commenced business in April 2000. The company provides investment in start-up and early stage technology companies in general located within 60 miles of Oxford.

Business review

There was a net loss for the period after taxation amounting to £3,473,000 (2002: return of £2,583,000) made up of a net capital loss on the value of investments of £3,355,000 (2002: gain of £2,637,000) and a revenue return of a deficit of £118,000 (2002: £54,000). The revenue account comprises income of £68,000 (2002: £123,000) less management and other expenses of £186,000 (2002: £179,000) and a taxation credit of £nil (2002: credit of £2,000).

Directors

The present membership of the board, and their interests in the ordinary shares of the company at 28 February 2003 and at 28 February 2002, are set out below.

	Ordinary shares of 10p each at 28 February 2003	Ordinary shares of 10p each at 28 February 2002
J B H Jackson	40,000	40,000
C J Breese	25,000	25,000
J L A Cary	25,000	25,000
M R H J O'Regan	200,000	200,000
Sir Martin Wood	100,000	100,000

Except as disclosed in note 2 and set out below, no director had, during the period or at the end of the period, a material interest in any contract which was significant in relation to the company's business. In the case of the investment in Equitalk.co.uk Ltd, J L A Cary, J B H Jackson and Larpent Newton Holdings Ltd (majority shareholder: C J Breese) were existing investors and took up some or all of their rights; in the case of the investment in Oxford Sensor Technology Ltd both J B H Jackson and M R H J O'Regan were existing investors, and took up their rights; in the case of the investment in STL Management Ltd, J L A Cary and Larpent Newton Holdings Ltd were existing shareholders and J L A Cary took up his rights. In these cases the terms of the investment at the time when they invested were either approved by the London Stock Exchange or the conditions for exemption under 11.7(h) of the Listing Rules were fulfilled.

Corporate governance

The company has complied throughout the period with the provisions (as modified by the FSA Listing Rules for Venture Capital Trusts) set out in Section 1 of the Combined Code, except that a senior non-executive director is not identified and the Board as a whole performs the functions of an Audit Committee and a separate committee of the Board with written terms of reference has not been established.

The Board consists solely of five non-executive directors. C J Breese and J L A Cary represent the Investment Manager and Investment Adviser respectively and the remaining three directors are independent. In these circumstances, the Board does not believe that it is necessary to identify a senior independent director other than the Chairman. The Board has put in place corporate governance arrangements which it believes are appropriate to a Venture Capital Trust and which will enable the company to operate within the spirit of the Principles of Good Governance and comply with the code of Best Practice ("the Combined Code").

The Board meets regularly, at least four times a year and between these meetings maintains contact with the Investment Manager and Investment Adviser. The Combined Code states that the Board should have a formal schedule of matters specifically reserved to it for decision, to ensure that the direction and control of the company is firmly in its hands. This is achieved by a management agreement between the company and its Investment Manager, and an agreement between the Investment Manager and the Investment Adviser, which sets out the matters over which the Investment Manager and the Investment Adviser have authority and the limits above which Board approval must be sought. All other matters are reserved for the approval of the Board of Directors.

None of the directors has a service contract with the company. The Articles of Association require that one third of the directors (or the number nearest one third) on a rotation basis will be subject to re-election procedures at subsequent Annual General Meetings.

Internal control

The directors are responsible for the company's system of internal control. The Board has adopted an internal operating and strategy document for the company. This includes procedures for the selection and approval of investments, the functions of the Investment Manager and the Investment Adviser and exit and dividend strategies. Day to day operations are delegated under agreements with the Investment Manager and the Investment Adviser who have established clearly defined policies and standards. These include procedures for the monitoring and safeguarding of the company's investments and regular reconciliation of investment holdings. This system of internal control, which includes procedures such as physical controls, segregation of duties, authorisation limits and comprehensive financial reporting to the Board, is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed, with its Investment Manager and Investment Adviser, the operation and effectiveness of the company's system of internal control for the financial period and the period up to the date of approval of the financial statements.

Relations with shareholders

The company values the views of its shareholders and recognises their interest in the company's strategy and performance, Board membership and quality of management. The company's regular newsletters are distributed to all shareholders to provide additional information on the company's investments and its overall progress.

Going concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they have adopted the going concern basis of preparing the financial statements.

Substantial shareholders

At 2 May 2003, the company has been notified of three investors whose interest exceeds three percent of the company's issued share capital (Starcap ANS, 8.3%, R Vessey, 3.3%, M R H J O'Regan 3.3%). The company has several investors, all individuals, who with their families have invested £100,000 or more in the shares of the company.

Auditors

Grant Thornton offer themselves for reappointment in accordance with Section 385 of the Companies Act 1985.

On behalf of the Board

J L A Cary
2 May 2003

Directors' Responsibilities for the Financial Statements

Company law in the United Kingdom 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 of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Remuneration Report

The Board has prepared this report, in accordance with the requirements of Schedule 7A to the Companies Act 1985, which applies for the first time to the company in this financial year. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting. The law requires the company's auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such.

Directors' fees and the company's policy on such fees

The Board consists solely of five non-executive directors. C J Breese and J L A Cary represent the Investment Manager and Investment Adviser respectively and the remaining three directors are independent. Since the company is a Venture Capital Trust with no executive directors, there are certain relaxations of the Combined Code permitted to the company under the Listing Rules of the Financial Services Authority. Accordingly, there is no separate remuneration committee and the Board performs collectively the duties of the committee.

The Board's policy is that the remuneration of non-executive Directors should be sufficient to reflect the duties and responsibilities of the Directors and the amount of time committed to the company's affairs. The Articles of Association of the company state that no Director can be paid more than £50,000 without an ordinary resolution of the shareholders.

The company's investment manager is Larpent Newton & Company Limited ("Larpent Newton"), a company of which C J Breese is a director and controlling shareholder. Seed Capital Ltd, a company of which J L A Cary is a director and the controlling shareholder, is the Investment Adviser to Larpent Newton. The Investment Management fee is laid out in the prospectus dated 6 March 2000 and the fee payments for the years ended 28 February 2002 and 28 February 2003 are laid out in note 2 to the financial statements.

As detailed in the company prospectus dated 6 March 2000, once the sum of 100p (gross) has been returned to shareholders by way of dividends and capital distributions, a performance incentive fee (expressed as a percentage of all distributions thereafter) will be payable as to 14 per cent of such distributions to the Investment Manager and Investment Adviser collectively and 6 per cent of such distributions to the independent Directors collectively.

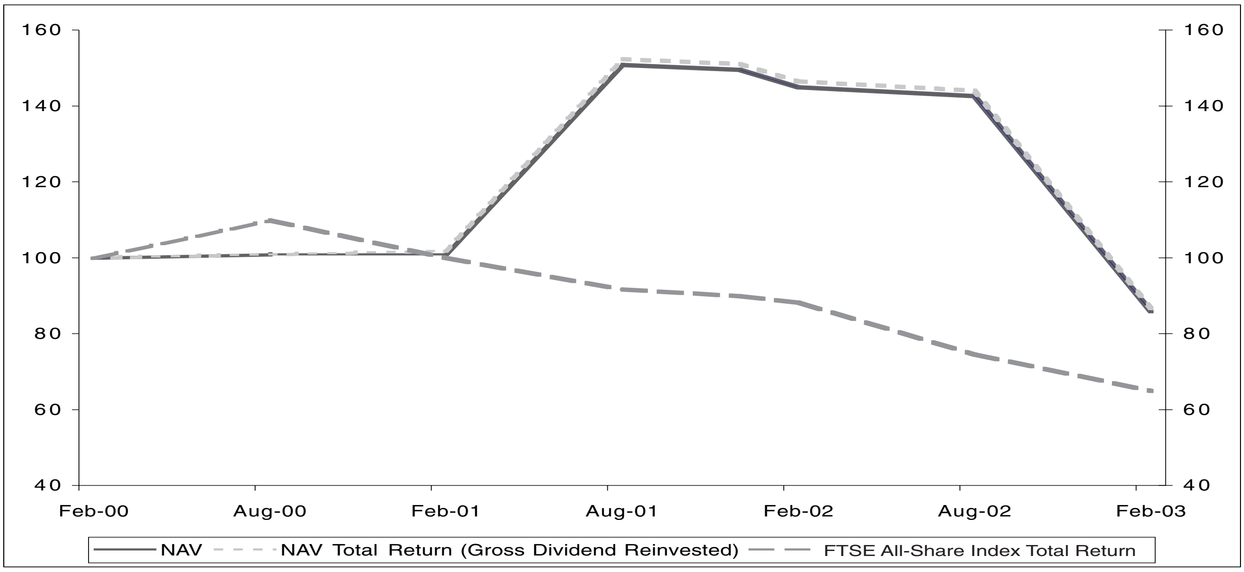
Directors' rights of tenure

No director has a service contract with the company. At each AGM, one-third of the directors are obliged to retire by rotation though any such director can, if he wishes, offer himself for re-election by shareholders. There is no notice period and no provision for compensation upon early termination of the appointment of any director.

Company's performance compared to a suitable index

The Board is responsible for the Company's investment strategy and performance, although the creation, management and monitoring of the investment portfolio is delegated to the Investment Manager and Investment Adviser, as described in the prospectus dated 6 March 2000.

The graph below compares the performance of the company with the performance of the FTSE All-Share index over the period from 28 February 2000 to 28 February 2003. It shows the change over the period in the total return to ordinary shareholders (assuming all dividends are reinvested) compared to the change over the period in total shareholder return on a notional investment of the same composition as the FTSE All-Share Index. This index was chosen as it represents a comparable broad equity market index. The net asset value per share (NAV) of the company has been selected as the most appropriate performance measure, as this best reflects progress of the investments made by the company; shareholders will ultimately realise value on disposal of these investments. All measures are rebased to 100 at the start date of the period. An explanation of the performance of the company is given in the Chairman's statement.



Directors' emoluments for the year

The information in this part of the report has been audited by the company's auditors.

The Directors who served in the year received the following emoluments in the form of fees:

	2003 £000	**2002 £000**
J B H Jackson (Chairman)	8	8
J L A Cary	5	5
C J Breese (paid to Larpent Newton)	5	5
M R H J O'Regan	5	5
Sir Martin Wood	5	5
	28	28

Non-executive directors are not eligible for pension benefits, share options, long-term incentive schemes or other benefits.

On behalf of the Board

John Jackson
Chairman
2 May 2003

Report of the Independent Auditors to the Members of Oxford Technology 2 Venture Capital Trust plc

We have audited the financial statements of Oxford Technology 2 Venture Capital Trust plc for the year ended 28 February 2003 which comprise the principal accounting policies, the statement of total return, the balance sheet, the cash flow statement and notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom 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 to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company 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 other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Statement on behalf of the Board, the Board of Directors, the Report of the Directors and the unaudited part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company at 28 February 2003 and of its result for the year then ended.
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Registered Auditors
Chartered Accountants
Oxford
2 May 2003

Principal Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of investments. The financial statements have been prepared in accordance with applicable accounting standards up to and including FRS 19 and with the Statement of Recommended Practice 'Financial statements of investment trust companies'. The principal accounting policies of the company have remained unchanged from the previous year and are set out below.

Valuation of investments

Government Stocks are valued at middle market prices.

Unlisted investments are carried at cost except in the following circumstances:

- where an Investee Company's under-performance against plan indicates a diminution in value of the investment, provision against cost will be made as appropriate in bands of 25 per cent
- where an Investee Company is well-established and profitable, the shares may be valued by applying a suitable price-earnings ratio to the company's historic post-tax earnings. The ratio will be based on a comparable listed company or sector but discounted by 25-50 per cent 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 an Investee Company, such value may be used.

The directors consider that this basis of valuation of unquoted investments is consistent with the British Venture Capital Association guidelines.

Income

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. Dividends receivable on quoted equity shares are brought into account on the ex-dividend date.

Fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield on the debt securities and shares, provided there is no reasonable doubt that payment will be received in due course.

Interest receivable from cash and short term deposits are accrued to the end of the year.

Expenses

All expenses are accounted for on an accruals basis. All expenses are charged through the revenue account except as follows:

- those expenses which are incidental to the acquisition of an investment are included within the cost of the investment
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment
- expenses are charged to the realised capital reserve where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect, the directors consider that, in appropriate circumstances, a proportion of the company's management expenses (not exceeding 75 per cent) may be charged to capital.

Capital reserves

Gains or losses on disposal of investments are dealt with in the realised capital reserve. Appreciation and depreciation on the revaluation of investments is dealt with in the unrealised capital reserve.

Statement of Total Return (incorporating the Revenue Account)* for the Year Ended 28 February 2003

	Note	2003 Revenue £000	2003 Capital £000	2003 Total £000	2002 Revenue £000	2002 Capital £000	2002 Total £000
Gains/(losses) on investments	6	-	(3,355)	(3,355)	-	2,637	2,637
Income	1	68	-	68	123	-	123
Investment management fee	2	(120)	-	(120)	(120)	-	(120)
Other expenses	3	(66)	-	(66)	(59)	-	(59)
Net return on ordinary activities before taxation		(118)	(3,355)	(3,473)	(56)	2,637	2,581
Tax on ordinary activities	4	-	-	-	2	-	2
Return attributable to equity shareholders and transfers to/(from) reserves.	10	(118)	(3,355)	(3,473)	(54)	2,637	2,583
Return per ordinary share	5	(1.97)p	(55.92)p	(57.89)p	(0.90)p	43.95p	43.05p

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

All revenue and capital items in the above statement derive from continuing operations. There were no recognised gains or losses for the year other than those shown above.

The accompanying accounting policies and notes form an integral part of these financial statements

Balance Sheet at 28 February 2003

		28 February 2003		28 February 2002	
	Note	**£000**	**£000**	**£000**	**£000**
Fixed assets					
Investments	6		4,462		7,630
Current assets					
Debtors	7	28		5	
Cash at bank		574		907	
		602		912	
Creditors: amounts falling due within one year	8	(6)		(11)	
Net current assets			596		901
Net assets			5,058		8,531
Capital and reserves					
Called up share capital	9		600		600
Share premium account	10		5,221		5,221
Other reserves:	10				
Capital reserve - realised			(136)		8
Capital reserve - unrealised			(465)		2,746
Revenue reserve	10		(162)		(44)
Shareholders' funds	11		5,058		8,531
Net asset value per share			84p		142p

These financial statements were approved by the directors on 2 May 2003.

J L A Cary
Director

The accompanying accounting policies and notes form an integral part of these financial statements

Cash Flow Statement
for the Year Ended 28 February 2003

	Note	2003 £000	2002 £000
Net cash inflow from operating activities	12	(146)	35
Taxation paid		-	(20)
Capital expenditure and financial investment			
Purchase of investments		(664)	(2,679)
Redemption / disposal of government stocks		288	2,015
Disposal of other investments		189	-
Net cash outflow for capital expenditure and financial investment		(187)	(664)
Dividends paid		-	(60)
Decrease in cash		(333)	(709)

The accompanying accounting policies and notes form an integral part of these financial statements

Notes to the Financial Statements
for the Year Ended 28 February 2003

1 Income

	2003 £000	2002 £000
Income from listed investments	8	112
Interest receivable	56	11
Other dividend income	4	-
	68	123

2 Investment management fee

	£000	£000
Investment management fee (see below)	120	120

The company's investment manager is Larpent Newton & Company Ltd ("Larpent Newton"), a company of which C J Breese is a director and controlling shareholder. The contract between the company and Larpent Newton is for an initial fixed term of three years from 6 March 2000 and may be terminated by either party on 12 months' notice expiring at the end of the fixed term or any time thereafter. An annual fee is payable to Larpent Newton under this agreement.

Seed Capital Limited, a company of which J L A Cary is a director and the controlling shareholder, is the Investment Adviser to Larpent Newton. By agreement between the company, the Investment Manager and the Investment Adviser, the investment management fee for the year ended 28 February 2003 of £120,000 (2002: £120,000) was paid in the form of salaries: £17,000 (2002: £17,000) to C J Breese (of the Investment Manager); and £63,000 (2002: £70,000) to J L A Cary and £40,000 (2002: £33,000) to M G W Frohn for investment advisory services provided.

3 Other expenses

	2003 £000	2002 £000
Directors' remuneration (see report on page 5)	28	28
Social security costs	14	14
Auditors' remuneration: audit services	5	5
: non-audit services	2	2
Other	17	10
	66	59

The employees during the year were the directors and M G W Frohn.

4 Tax

	£000	£000
UK Corporation tax	-	-
Adjustment for prior year taxation	-	(2)
	-	(2)

The tax credit for the year is lower than the standard rate of taxation for companies of this size in the UK (20%). The differences are explained below:

	£000	£000
Net revenue return on ordinary activities before taxation	(118)	(56)
At standard rate of taxation	(24)	(11)
Excess management expenses carried forward	24	11
Adjustment for prior year taxation	-	(2)
Current tax credit for year	-	(2)

Unrelieved management expenses of £170,000 (2002: £54,000) remain available for offset against future taxable profits.

5 Return per ordinary share

The calculation of revenue return per share is based on the net deficit for the financial period of £118,000 (2002: £54,000) divided by the weighted average number of ordinary shares of 6,000,000 (2002: 6,000,000) in issue during the period.

The calculation of capital return per share is based on the net capital loss for the financial period of £3,355,000 (2002: return of £2,637,000) divided by the weighted average number of ordinary shares of 6,000,000 (2002: 6,000,000) in issue during the period.

6 Investments

	2003			2002		
	UK Government stocks £000	Other £000	Total £000	UK Government stocks £000	Other £000	Total £000
Valuation at 1 March	290	7,340	7,630	2,374	1,955	4,329
Purchases at cost	-	664	664	-	2,679	2,679
Redeemed/disposed during the year[1]	(288)	(348)	(636)	(2,007)	-	(2,007)
Unrealised appreciation/(depreciation)	(2)	(3,194)	(3,196)	(77)	2,706	2,629
Valuation at 28 February	-	4,462	4,462	290	7,340	7,630

	2003	2002
Unrealised appreciation/(depreciation) (note 10)	(3,196)	2,629
Gain/(loss) on disposal of investments (note 10)	(159)	8
Gains/(losses) on investments	(3,355)	2,637

[1]Assertion Ltd was put into liquidation, with no proceeds to the company, representing a loss of £75,000. CHRdesign Ltd was sold for £189,000 representing a loss of £84,000 against book value at 28 February 2002 and a loss of £69,000 against cost.

6 Investments (continued)

Details of unlisted investments are set out below. All investee companies are incorporated and operate in the UK, except Cipherware Ltd, which operates in the UK and the Netherlands:

Name of undertaking	Class of shares held	Percentage of voting rights held by company	Capital and reserves £000	Profit/(loss) before tax for year £000	Retained profit/(loss) for year £000
Acumen Business Solutions Ltd [1]	Ordinary and Preference	58.1%	(52)	(64)	(64)
Armstrong Healthcare Ltd[2]	Ordinary	18.6%	223	(542)	(454)
Astron Clinica Ltd[3]	Ordinary	2.4%	209	(1,205)	(1,205)
Cipherware Ltd [4]	Ordinary	44.9%	-	-	-
Commerce Decisions Ltd [5]	Ordinary	9.7%	478	(297)	(297)
Coraltech Ltd[6]	Ordinary	12.5%	1,513	(29)	(29)
Duncan Hynd Associates Ltd[7]	Ordinary	1.2%	70	(30)	(30)
Equitalk.co.uk Ltd[8]	Ordinary	32.5%	153	(347)	(347)
F1F9 (UK) Ltd[9]	Ordinary	9.4%	138	45	(29)
Hardide Ltd[10]	Ordinary	12.5%	(358)	(522)	(524)
Immunobiology Ltd[11]	Ordinary	12.1%	177	(162)	(162)
InaPlex Ltd[12]	Ordinary	20.8%	39	(152)	(152)
Insense Ltd[13]	Ordinary	16.7%	46	(290)	(290)
Intellikraft Ltd[14]	Ordinary	14.1%	2,476	(1,183)	(1,183)
Jetmask Ltd[15]	Ordinary	12.4%	190	(974)	(915)
M3 Networks Ltd[16]	Ordinary	29.4%	-	-	-
Membrane Extraction Technology Ltd[17]	Ordinary	7.0%	381	(67)	(67)
OCRobotics Ltd[18]	Ordinary	19.6%	120	(200)	(199)
Orthogem Ltd [19]	Ordinary	49.8%	11	(59)	(59)
Oxford Sensor Technology Ltd[20]	Ordinary and Preference	14.7%	(66)	(151)	(85)
Plasma Antennas Ltd[21]	Ordinary and Preference	16.1%	106	(42)	(42)
Prolysis Ltd[22]	Ordinary	3.5%	88	10	10
STL Management Ltd[23]	Ordinary	13.2%	(12)	(144)	(144)

1. For the year ended 28 February 2002
2. For the year ended 31 Dec 2001
3. For the year ended 31 Dec 2001
4. Not yet produced audited accounts
5. For the year ended 31 March 2002
6. For the year ended 31 July 2002
7. For the year ended 30 April 2001
8. For the year ended 31 March 2002
9. For the year ended 30 April 2002
10. For the year ended 30 September 2002
11. For the year ended 31 May 2002
12. For the year ended 30 September 2002
13. For the year ended 31 December 2001
14. For the year ended 30 June 2001
15. For the year ended 30 September 2002
16. Not yet produced audited accounts
17. For the year ended 31 July 2002
18. For the year ended 31 December 2001
19. For the year ended 31 December 2001
20. For the year ended 31 March 2002
21. For the year ended 31 March 2002
22. For the year ended 31 December 2001
23. For the year ended 31 July 2001

Armstrong Healthcare Ltd completed a fundraising round in March 2003 which lowered the company's percentage of voting rights to 13.6%. As shown above, certain of the company's unlisted investments entitle the company to more than 20% of the voting rights in the investee company. The Board does not consider that these investments fall within the definition of associated undertakings since the company does not exercise significant influence over the operating and financial policies of the investee companies.

6 Investments (continued)

Name of undertaking	Brief description of business	Cost of investment £000	Value of investment £000
Acumen Business Solutions Ltd	Document tracking software.	250	200
Armstrong Healthcare Ltd	Medical robots.	230	460
Astron Clinica Ltd	Instrument to give instant and accurate diagnosis of skin cancer.	400	206
Cipherware Ltd	Secure access to all database types with a universal driver.	97	97
Commerce Decisions Ltd	Complex procurement software.	200	270
Coraltech Ltd	Lightweight and strong foamed plastic moulded components.	291	216
Duncan Hynd Associates Ltd	Radiotherapy products.	-	8
Equitalk.co.uk Ltd	Internet-related telecoms.	270	345
F1F9 (UK) Ltd	Software to improve the accuracy of complex financial models.	100	100
Hardide Ltd	Very hard tungsten coating technology.	250	250
Immunobiology Ltd	Research to produce better vaccines.	150	150
InaPlex Ltd	Architecture to improve the accuracy of information in databases.	117	72
Insense Ltd	Very sensitive detection of vapours.	266	266
Intellikraft Ltd	Piezoelectric technologies.	500	250
Jetmask Ltd	Direct printing of etch masks on PCBs.	466	13
M3 Networks Ltd	Cisco networks for the education sector.	200	200
Membrane Extraction Technology Ltd	Environmentally friendly technology to remove toxic organic molecules.	75	75
OCRobotics Ltd	’Snake’ robot arm technology.	225	225
Orthogem Ltd	Better artificial bone.	99	371
Oxford Sensor Technology Ltd	Sensors for improving production line efficiency.	235	189
Plasma Antennas Ltd	Solid state plasma antennas.	150	150
Prolysis Ltd	High throughput screening of novel antibiotic candidates.	225	225
STL Management Ltd	Specialist photocopiers.	132	124
		4,928	4,462

	Cost of investment £000	Value of investment £000
Investments in unlisted equity shares	4,194	3,759
Investments in unlisted preference shares	273	273
Loans	461	430
	4,928	4,462

7 Debtors

	2003	2002
	£000	£000
Other debtors	28	5

8 Creditors: amounts falling due within one year

	£000	£000
Other creditors	6	11

9 Share capital

	£000	£000
Authorised		
10,000,000 ordinary shares of 10p each	1,000	1,000
Allotted, called up and fully paid		
6,000,000 (2002: 6,000,000) ordinary shares of 10p each	600	600

10 Reserves

	Share premium account £000	Capital reserve realised £000	Capital reserve unrealised £000	Revenue reserve £000
At 1 March 2002	5,221	8	2,746	(44)
Unrealised appreciation/(depreciation) on valuation of investments	-	-	(3,196)	-
Realised gain on disposal of investments	-	(159)	-	-
Transfer on disposal of investment	-	15	(15)	-
Result for the year	-	-	-	(118)
At 28 February 2003	5,221	(136)	(465)	(162)

11 Reconciliation of movements in shareholders' funds

	2003	2002
	£000	£000
Result for the year	(118)	(54)
Other recognised gains or losses	(3,355)	2,637
Net increase/(decrease) in shareholders' funds	(3,473)	2,583
Shareholders' funds at beginning of year	8,531	5,948
Shareholders' funds at end of year	5,058	8,531

12 Reconciliation of net revenue before taxation to net cash inflow from operating activities

	£000	£000
Net revenue return/(loss) before taxation	(118)	(56)
Increase/(decrease) in creditors	(5)	1
(Increase)/decrease in debtors	(23)	90
	(146)	35

13 Financial instruments

The company uses financial instruments, other than derivatives, comprising cash and various items such as debtors and creditors that arise from its activities. The main purpose of these financial instruments is to finance the company's activities. The company's exposure to the risks normally associated with financial instruments, such as interest rate risk, liquidity risk and foreign currency risk, is minimal due to the nature of the company's financial instruments and its activities. There is no difference between the fair values and book values of the company's financial instruments.

14 Capital commitments

The company is committed to make additional investments amounting to £20,000 (2002: £394,000) in the next financial year.

15 Contingent liabilities

The company had no contingent liabilities at 28 February 2003 or 28 February 2002.

Company Information

Directors
John Jackson (Chairman)
Charles Breese
Lucius Cary
Michael O'Regan
Sir Martin Wood

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Secretary
James Gordon

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