

Corporate Governance

The Directors are committed to achieving a high standard of corporate governance and to compliance with the best practice provisions of the Combined Code on corporate governance introduced by the London Stock Exchange and adopted by the UK Listing Authority of the Financial Services Authority (FSA).

The following statement describes how the Company has applied the principles set out in the Combined Code.

Board Responsibilities

The Board consists solely of Non-Executive Directors who, with the exception of Mr Anysz and Mr Smart, are considered to be independent. Biographical details of all Directors are given on page 12.

The Board meets regularly throughout the year to review financial performance and strategy and has a formal schedule of matters reserved to it for decision. Board papers comprising an agenda and formal reports and briefing papers are sent to the Directors in advance of each meeting. All Directors have access to the advice and services of the Company Secretary and external professional advice, if required, at the Company's expense.

Board Committees

Committees comprising the entire Board carry out the functions of Audit and Nominations Committees. Recent changes to the Listing Rules mean that the Company is not obliged to operate a Remuneration Committee, by virtue of its VCT status and the fact that the Board is composed solely of Non-Executive Directors.

Audit Committee

The Audit Committee is scheduled to meet twice a year and is able to meet more frequently where business needs require. The role of the Audit Committee is to assist the Board in discharging its duties and responsibilities for financial reporting, corporate governance, internal control and the appointment and remuneration of independent auditors. The Committee's duties include keeping under review the scope and results of the audit work and its cost-effectiveness and the independence and objectivity of the auditors. The Committee also monitors the volume and nature of non-audit services provided by the auditors to ensure that a balance is maintained between objectivity and value added.

Nominations Committee

The Board as a whole is responsible for the appointment of new Directors and for nominating them for election by shareholders at the first opportunity after their appointment. They operate a formal procedure for such nominations.

Communications with Shareholders

The Company attaches significant importance to communication with its shareholders. Annual and Interim Reports are distributed to all parties who may have an interest in the Company's performance. These reports, together with other useful information are available on the Company's web site. Shareholders are encouraged to attend the Annual General Meeting ('AGM') at which an opportunity is provided to ask questions. At the AGM, the Company intends to continue its policy of announcing the number of proxy votes cast in respect of each resolution. Details of the resolutions to be proposed at the AGM can be found on pages 33 and 34.

Internal Control

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

Day-to-day operations are delegated, through a management agreement, to Capital for Companies ('CfC'). Under the terms of that agreement CfC provides investment management, accounting and secretarial services to the Company. A clearly defined investment strategy is set out for the Manager and monitored by the Board, which regularly reviews the Company's investments, liquid transactions and revenue and expenditure. CfC's system of internal controls includes organisational arrangements with clearly defined lines of responsibility and delegated authority, as well as control procedures and systems that are regularly evaluated. Being a member of the BWD Securities PLC group (soon to become Rensburg plc), CfC operates under the supervision of BWD Securities PLC's Audit Committee and Risk Management Committee.

In accordance with the guidance for directors on internal control 'Internal Control: Guidance for Directors on the

Corporate Governance

continued

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.

The Board confirms that it has reviewed the effectiveness of the system of internal control for the year ended 29 February 2004 and has taken account of material developments between 29 February 2004 and the date of approval of the Report and Financial Statements.

Following an assessment, the Company has decided that it has sufficient monitoring and control procedures in place to not currently justify the establishment of an internal audit function. The need for such a function will be assessed on an annual basis moving forward.

Compliance with the Code

The Directors consider that the Company has been in full compliance with the provisions set out in section one of the Combined Code throughout the year except as follows:

- *provision A2.1* which requires there to be a recognised Senior Independent Non-Executive Director other than the Chairman to whom concerns can be conveyed. The Board considers that in view of its nature it is not appropriate to appoint a senior member other than the Chairman;
- *provision A6.1* which requires Non-Executive Directors to be appointed for specified terms. At the time of their appointment each of the current Non-Executive Directors was not appointed for a specified term. The Board has agreed that all new Non-Executive Directors should be subject to appointment for a specified term.

The revised Combined Code, issued on 23 July 2003, will apply to the Company for the first time during the financial year ending 28 February 2005. A review is currently being undertaken to establish the extent of the Company's compliance with the provisions of the revised Code and any areas of non-compliance will be given careful consideration by the Board. A full report under the revised Code will be made in the report and financial statements for the year ending 28 February 2005.

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 in preparing the financial statements.