

# Notes to the Financial statements

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## 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's financial statements.

### Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments in accordance with applicable accounting standards. In preparing this financial information, there have been no material changes to the accounting policies previously applied by the Company, with the exception of accounting for investments, dividends and the recognition of income relating to option premiums. These changes and their effect on the financial statements are explained below. In accordance with Section 229(2) of the Companies Act 1985, the Company is exempt from preparing consolidated financial statements. As such, the Company is not required to prepare its financial statements in accordance with International Financial Reporting Standards.

### Investments

Following the adoption of FRS 26 for the first time during the year, listed investments and investments traded on AIM are carried at the closing market bid value. Previously, these investments were carried at the closing middle market value. As permitted by FRS 26, comparative balances have not been restated. The effect of this change in accounting policy is to reduce the value of investments by £154,000.

Unquoted investments are stated at Directors' valuation in accordance with the British Venture Capital Association guidelines for the valuation of venture capital investments. In determining this valuation the Directors give consideration to the period of investment, the performance of the investment against plan, appropriately discounted comparative listed companies' price earnings ratios and any recent transactions.

The Directors have reviewed the investment portfolio with regard to the provisions of FRS 26 and believe that all AIM and listed investments should be classified as fair value through profit and loss investments, unquoted investments should be classified as available-for-sale investments and subordinated loans should be classified as loans and receivables.

Realised and unrealised gains and losses on the revaluation of assets designated as at fair value through profit and loss are taken to the income statement.

Unrealised gains and losses on the revaluation of assets designated as available-for-sale are taken to the available-for-sale reserve.

Realised gains and losses on the disposal of available-for-sale investments are subsequently removed from the available-for-sale reserve and are taken to the income statement.

Loans and receivables are stated at historic cost, subject to provision for impairment where necessary.

Although the Company may hold more than 20% of the equity share capital of a particular company, in accordance with FRS 9, paragraph 49 it would be inappropriate to treat any such investments as associated undertakings.

### Income

Equity dividends are brought to account on the ex-dividend date. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. All other income is recognised on an accruals basis.

### Option premiums

In accordance with FRS 26, options granted over shares are valued at fair value, in addition, premiums received or covered call options issued by the Company over certain of its quoted equity investments are now recognised in the income statement evenly over the life of the option. Previously, option premiums were recognised on a cash received basis.

# Notes to the Financial Statements

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## 1. Accounting policies (continued)

### Expenditure

All expenditure is accounted for on an accruals basis and is charged wholly to the income statement with the following exception:

- expenses incidental to the acquisition or disposal of an investment are included within the cost of the investment or deducted from the disposal proceeds as appropriate.

### Revenue and Capital

Profit/(loss) before and after tax can be analysed between revenue and capital as follows:

	2006 Revenue £000	2006 Capital £000	2006 Total £000	2005 Revenue £000	2005 Capital £000	2005 Total £000
Profit/(loss) on ordinary activities before tax	178	4,833	5,011	147	(685)	(538)
Tax on profit on ordinary activities	–	–	–	15	(15)	–
Profit/(loss) on ordinary activities after tax	178	4,833	5,011	162	(700)	(538)

### Dividends

Following the implementation of FRS 21 for the first time during the year, dividends payable are recognised during the year in which they are declared. Previously, dividends declared after the year end, but prior to the financial statements being authorised for issue, were recognised as a liability at the balance sheet date. The adoption of FRS 21 has resulted in an increase in retained profits for the year of £408,000. The effect on the year ended 28 February 2005 is to increase retained profits by £97,000.

In accordance with FRS 25, dividends payable are treated as a charge on reserves and accounted for through the reconciliation of shareholders' funds rather than in the profit and loss account as previously.

### Revaluation reserve

Following adoption of FRS 26, the historic net loss on available-for-sale investments previously recognised in the revaluation reserve was transferred to the available-for-sale reserve. Similarly, the historic net gain on investments designated as at fair value through the profit and loss account previously recognised in the revaluation reserve was transferred to the profit and loss account. Increases and decreases in the valuation of available-for-sale investments held at the year end are taken to the available-for-sale reserve. Increases and decreases in the valuation of investments designated as at fair value through the profit and loss account are accounted for in the income statement. Any permanent diminutions in value are accounted for in the income statement.

### Financial instruments

During the course of the year the Company held fixed asset investments and cash balances. The Company holds financial asset investments in UK listed, AIM and unquoted companies. The fair value is not materially different from the carrying value of all financial assets and liabilities. Further information on financial instruments and the risks associated with holding such assets can be found in note 16 to these financial statements.

**2. Income**

	2006 £000	2005 £000
UK franked investment income	303	220
Interest receivable from fixed interest securities	36	25
Deposit and other interest	48	53
Income from options	–	19
	<b>387</b>	<b>317</b>

**3. Investment management fees**

	2006 £000	2005 £000
Investment management fees	376	318
Irrecoverable value added tax	70	59
	<b>446</b>	<b>377</b>

Until 19 December 2005, Rensburg Investment Management Limited ('RIM'), provided investment management and secretarial services to the Company under an agreement dated 15 January 1999. This agreement was for an initial fixed term of three years and may have been terminated by either party on not less than twelve months' notice expiring at the end of the fixed term or any time thereafter.

RIML received £30,000 per annum for secretarial fees plus 2% per annum of the net assets of the Company (both amounts were plus value added tax).

With effect from 20 December 2005, a revised agreement was entered into with RIM. Under this agreement, RIM receives 1.8% per annum of the net assets of the Company (plus value added tax).

Following a reorganisation of the Rensburg Sheppards group on 31 January 2006, the management agreement was assigned by RIM to Rensburg Sheppards Investment Management Limited ('RSIM'). Both RIM and RSIM are wholly owned subsidiaries within the Rensburg Sheppards group.

**4. Other expenses**

	2006 £000	2005 £000
Directors' remuneration (see pages 17 and 18)	52	48
Auditor's remuneration		
– audit	12	8
– other services to the Company (tax advice)	1	1
Other operating expenses	60	46
Acquisition costs	175	–
Irrecoverable value added tax	34	12
	<b>334</b>	<b>115</b>

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## 5. Taxation

The Company is subject to corporation tax at 30% (2005: 30%). Applying this rate to the profit on ordinary activities before tax would give a tax charge of £1,503,000 (2005: tax credit £161,000). However, UK dividends are not liable to corporation tax and a VCT is exempt from corporation tax on its capital gains and its capital loan relationship gains/profits. Accordingly, the tax deductible expenses substantially exceed the taxable income of the Company and as a result, there is no corporation tax charge.

At 28 February 2006 the Company had surplus tax deductible expenses of £2,264,000 (2005: £1,743,000) in respect of which no deferred tax asset has been recognised. This is because the Company is not expected to generate taxable income in a future period in excess of the deductible expenses of that period and accordingly, it is unlikely that the Company will be able to reduce future tax liabilities through the use of existing surplus expenses.

## 6. Acquisition

On 19 December 2005, the Company acquired the entire share capital of Rensburg VCT plc. The consideration paid and the fair value of the net assets acquired was as follows:

	Book value £000	Fair value adjustments £000	Fair value £000
Fixed asset investments			
– Readily realisable as cash	3,342	–	3,342
– Not readily realisable as cash	7,983	–	7,983
	<b>11,325</b>	–	<b>11,325</b>
Debtors (readily realisable as cash)	16	–	16
Cash at bank and in hand	288	–	288
Net assets acquired	<b>11,629</b>	–	<b>11,629</b>
<b>The purchase consideration comprised:</b>			
15,497,303 ordinary shares			<b>11,629</b>

A total of 15,497,303 ordinary shares were issued to the shareholders of Rensburg VCT plc on 19 December 2005 under the terms of the acquisition. The shareholders of Rensburg VCT plc received one new ordinary share in Rensburg Aim VCT plc for every one share held and at this point, the shares of Rensburg VCT plc were cancelled. On the same date, Rensburg VCT plc issued one new ordinary share to Rensburg Aim VCT plc in consideration for the above transaction, Rensburg VCT plc becoming a wholly-owned subsidiary of the Company.

The Directors believe that the fair value of the ordinary shares allotted in consideration for the acquisition is best represented by the Company's Net Asset Value ('NAV') rather than the share price as quoted on the London Stock Exchange. This is due to the shares trading at a significant discount to NAV, as there is no ready market for the shares without losing the tax benefits that accrue to them. As a consequence, virtually all share trades are enacted with the Company itself at a marginal discount to NAV. The Company's NAV at the date of the acquisition was 75.04 pence per share.

## 6. Acquisition (continued)

### Dividend received from subsidiary undertaking

Prior to the acquisition, all liabilities of Rensburg VCT plc were settled. Immediately following the acquisition, the trade and remaining assets were transferred to Rensburg Aim VCT plc by way of a distribution-in-specie. The book and fair value of the net assets transferred amounted to £11,629,000 of which £3,646,000 was deemed to be in the form of assets that are readily realisable as cash. The remaining £7,983,000 of assets transferred was deemed not to be readily realisable as cash.

Of the total dividend received, the amount deemed to be readily realisable as cash has been taken to the income statement. The amount deemed not to be readily realisable as cash has been taken directly to reserves, as set out in note 12.

In accordance with the relief provisions of Section 131 of the Companies Act 1985, the investment has been recorded within fixed assets at the nominal value of the shares allotted to the shareholders of Rensburg VCT plc, subsequently adjusted for impairment following the distribution-in-specie as explained in note 8d.

## 7. Returns per share

Earnings per share of 20.12p (2005: losses per share of 2.60p) is based on the profit on ordinary activities after tax of £5,011,000 (2005: loss of £538,000) and on 24,902,098 (2005: 20,678,047) ordinary shares, being the weighted average number of shares in issue during the year.

Total recognised gains per share of 51.56p (2005: gains per share of 2.71p) is based on total recognised gains for the year of £12,840,000 (2005: gains of £561,000) and on 24,902,098 (2005: 20,678,047) ordinary shares, being the weighted average number of shares in issue during the year.

## 8. Investments

	2006	2005
a) Investment summary by value:	£000	£000
Fair value through profit and loss account		
Listed investments	11,580	–
Investments traded on AIM	14,207	–
Available-for-sale		
Unquoted investments	932	–
Loans and receivables	315	–
Investments		
Listed investments	–	7,176
Investments traded on AIM	–	7,258
Unquoted investments	–	295
Subordinated loans	–	204
	27,034	14,933

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## 8. Investments (continued)

b) Movements during the year:	Notes	Fair value through profit and loss		Available-for-sale Unquoted	Loans and receivables	Total
		Listed	AIM			
		£000	£000	£000	£000	£000
Opening book cost		7,209	7,066	500	204	14,979
Opening unrealised appreciation		(33)	192	(205)	–	(46)
<b>Opening valuation</b>		<b>7,176</b>	<b>7,258</b>	<b>295</b>	<b>204</b>	<b>14,933</b>
Acquired with subsidiary undertakings	6	3,341	7,191	682	111	11,325
Purchases at cost		1,050	1,160	150	–	2,360
Disposal proceeds		(1,194)	(1,775)	(219)	–	(3,188)
Realised gains on disposals		74	1	24	–	99
Fair value gains		1,133	372	–	–	1,505
<b>Closing valuation</b>		<b>11,580</b>	<b>14,207</b>	<b>932</b>	<b>315</b>	<b>27,034</b>
Closing fair value		11,580	14,207	1,137	315	27,239
Closing unrealised appreciation		–	–	(205)	–	(205)
		<b>11,580</b>	<b>14,207</b>	<b>932</b>	<b>315</b>	<b>27,034</b>

c) Investment summary by type of holding:	2006	2005
	£000	£000
Qualifying equity shares	14,958	7,426
Qualifying non-equity shares	160	80
Qualifying loans	315	204
Non-qualifying equity shares	4,744	2,300
Unit trusts and fixed interest securities	6,857	4,923
	<b>27,034</b>	<b>14,933</b>

d) Investment in subsidiary undertakings:	2006	2005
	£000	£000
At 1 March 2005	–	–
Acquired during the year	775	–
Provision for impairment	(775)	–
	<b>–</b>	<b>–</b>

During the year the Company acquired the entire share capital of Rensburg VCT plc (now Rensburg VCT) as set out in note 6. As a result of the distribution-in-specie, also described in note 6, the cost of the investment in Rensburg VCT is impaired and has therefore been written down to nil.

The principle subsidiary at the year end is Rensburg VCT, an unlimited company that is registered in England and Wales, of which Rensburg Aim VCT plc owns 50% of the issued ordinary share capital. Under the provisions of section 229(2) of the Companies Act 1985, the Company is exempt from the requirement to prepare consolidated financial statements that include this subsidiary.

## 9. Debtors

	2006	2005
	£000	£000
Prepayments and accrued income	99	51

**10. Creditors (amounts falling due within one year)**

	2006 £000	2005 £000
Trade creditors	144	104
Accruals and deferred income	2,619	441
	<b>2,763</b>	<b>545</b>

Accruals and deferred income includes an amount of £40,000 (2005: £nil) in respect of option premiums received on covered call options issued by the Company over certain of its quoted equity investments. Premiums received are recognised in the income statement evenly over the life of the option.

**11. Called up share capital**

	2006 £000	2005 £000
<b>Authorised:</b>		
60,000,000 ordinary shares of 5p each (2005: 40,000,000)	3,000	2,000
<b>Allotted, issued and fully paid up</b>		
36,158,128 ordinary shares of 5p each (2005: 20,378,191)	1,808	1,019

Since 1 March 2005 the issued share capital has been changed as follows:

	Date	No of shares	£000	£000
<b>As at 1 March 2005</b>		20,378,191		1,019
<b>Allotments:</b>				
905,847 ordinary shares at 78p	March 2005	905,847	46	
1,000,383 ordinary shares at 78p	April 2005	1,000,383	50	
27,692 ordinary shares at 78p	June 2005	27,692	1	
40,000 ordinary shares at 75p	June 2005	40,000	2	
15,497,303 ordinary shares at par*	December 2005	15,497,303	775	
				874
<b>Purchases:</b>				
110,425 ordinary shares at 55p	May 2005	(110,425)	(5)	
20,000 ordinary shares at 61p	June 2005	(20,000)	(1)	
20,000 ordinary shares at 55p	June 2005	(20,000)	(1)	
13,888 ordinary shares at 53p	June 2005	(13,888)	(1)	
10,000 ordinary shares at 58p	July 2005	(10,000)	(1)	
84,279 ordinary shares at 55p	July 2005	(84,279)	(4)	
65,222 ordinary shares at 55p	August 2005	(65,222)	(3)	
495,000 ordinary shares at 68.5p	December 2005	(495,000)	(25)	
492,882 ordinary shares at 68.5p	January 2006	(492,882)	(25)	
379,592 ordinary shares at 68p	February 2006	(379,592)	(19)	
				(85)
<b>As at 28 February 2006</b>		36,158,128		1,808

\* During the year the Company allotted 15,497,303 ordinary shares to the shareholders of Rensburg VCT plc in consideration for the acquisition of the entire share capital of Rensburg VCT plc on 19 December 2005, as explained in note 6. In accordance with the relief provisions of Section 131 of the Companies Act 1985, the Company has recorded the shares allotted in respect of the acquisition at their nominal value of 5p each.

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## 12. Reserves

	Share premium £000	Capital redemption reserve £000	Revaluation reserve £000	Available for-sale reserve £000	Other reserve £000	Profit and loss account £000
At 28 February 2005 as previously reported	891	45	(46)	–	–	13,235
Prior year adjustment – dividends	–	–	–	–	–	408
As restated	891	45	(46)	–	–	13,643
Impact of adoption of FRS 26						
– Reserves transfer	–	–	46	(205)	–	159
– Change in valuation basis	–	–	–	–	–	(154)
Dividends paid (note 13)	–	–	–	–	–	(625)
Issue of new shares, net of issue costs	565	–	–	–	–	–
Purchase of own shares	–	85	–	–	–	(1,122)
Assets acquired not deemed to be readily realisable or cash	–	–	–	–	7,983	–
Retained profit for the year	–	–	–	–	–	5,011
<b>As at 28 February 2006</b>	<b>1,456</b>	<b>130</b>	<b>–</b>	<b>(205)</b>	<b>7,983</b>	<b>16,912</b>

## 13. Dividends paid

	2006 £000	2005 (as restated) £000
Ordinary 5p shares		
Final 2005 dividend paid – 2.00p (2004 Final: 1.50p)	405	311
Interim 2006 dividend paid – 1.00p (2005 Interim: 1.00p)	220	206
	625	517

## 14. Historical cost profits and losses

	2006 £000	2005 (as restated) £000
Profit/(loss) on ordinary activities before tax	5,011	(538)
Realisation of revaluation losses of previous years	–	(3,400)
<b>Historical cost profit/(loss) on ordinary activities before tax</b>	<b>5,011</b>	<b>(3,938)</b>

## 15. Net asset value per share

The net asset value per share at 28 February 2006 is based on net assets of £28,084,000 (2005: £15,552,000) and on 36,158,128 (2005: 20,378,191) ordinary shares, being the number of ordinary shares in issue on that date.

## 16. Financial instruments

In furtherance of the Company's objectives to secure long-term capital growth, the Company holds a number of financial instruments as follows:

- Equity shares, unit trusts, non-equity preference shares, fixed interest gilts and cash; and
- Liquid resources, short-term debtors and creditors that arise directly from operations.

The main risks arising from the Company's financial instruments are interest rate, market price, liquidity and credit risks. The Directors maintain policies for managing these risks, details of which are set out below. These policies have been in operation throughout the period under review. The Company values both listed and AIM listed investments at fair value. Both available-for-sale investments and loans and receivables are stated at historic cost, subject to provision for impairment where necessary.

### a) Interest rate risk

#### (i) Floating rate

The Company from time to time may hold part of its portfolio in cash. Any changes in interest rates will therefore affect the income of the Company. The amount held in cash and subject to floating rate risk at the year end was £3,714,000 (2005: £813,000) (Benchmark: Bank of England REPO rate less 0.25%). The Company holds £40 (2005: £300,000) in a non-interest bearing bank account.

ii) Fixed rate	2006	2006	2006	2005	2005	2005
	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period to maturity Days	Total fixed rate portfolio £000	Weighted average interest rate %	Weighted average period to maturity Days
Financial assets	1,844	4.63	1,058	708	4.06	1,215

Financial assets include fixed interest securities and loans to AdVal Group plc and Vianet Group plc.

The Directors meet monthly to consider the interest rate risk to ensure that the risk reward profile is acceptable.

#### b) Market price risk

The Company's portfolio is exposed to market price fluctuations, which are monitored by the manager and reviewed regularly by the Directors in pursuance of the investment objectives and policies. Adherence to the investment and borrowing powers set out in the original prospectus mitigates the risk of excessive exposure to any particular type of security or issuer. Although the Company is permitted to do so, the Directors do not use derivative instruments to hedge the investment portfolio against market risks. The manager reviews the cost of such derivatives but would only recommend the purchase of such instruments to the Directors if the perceived benefits outweighed the costs to investors. To date this has proved not to be the case. However, the Directors have issued covered call options in respect of certain quoted equities held during the year to exploit price differentials.

#### c) Liquidity risk

The principal exposure of the Company is due to the equity held in AIM and other unquoted companies as a result of the possible failure of such companies. The manager reviews the liquidity risk daily with a view to ensuring that the element of investors' funds that are held in cash or more readily realisable securities is sufficient to meet potential liabilities that may arise. The manager and Directors are aware that the Company's investment portfolio could be difficult to realise and the fact that a share is traded on AIM does not guarantee its liquidity.

#### d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager has in place a procedure to monitor counterparty risk on an ongoing basis.

## 17. Post balance sheet events

Between 4 March 2006 and 5 April 2006 the Company issued a further 7,909,632 ordinary shares raising net proceeds of £5,974,000.