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Talisman First Venture Capital Trust PLC

Annual Report and Financial Statements
31 March 2006

Aberdeen

Contents

Financial Calendar

23 August 2006	Annual General Meeting

Corporate Summary

Company profile
Talisman First Venture Capital Trust PLC ("the Company") is a venture capital trust. It has one class of share and was incorporated on 5 April 2000.

Objective
The Company aims to achieve long term capital appreciation, principally through investment in small unlisted and OFEX and AIM quoted companies in the United Kingdom with strong growth potential.

Benchmark
There is no meaningful venture capital trust index against which to compare the performance of the Company. Accordingly the Manager uses peer group comparisons for reporting to the Board.

Capital structure
The Company's issued share capital, as at 31 March 2006, consisted of 26,545,500 Ordinary shares of 10p each.

Total assets and Net Asset Value
At 31 March 2006, the Company had total assets of £2,646,000 and a Net Asset Value of 10.0p per share.

Continuation date
The Articles of Association require the Directors to put a proposal for the continuation of the Company, in its then form, to Shareholders at the Company's sixth Annual General Meeting, and thereafter at three yearly intervals. Accordingly a resolution to this effect will be put to Shareholders at the Annual General Meeting of the Company to be held on 23 August 2006 and, for the resolution not to be passed, a majority of the votes cast must be against the resolution. Further information is provided in the Chairman's Statement on pages 5 to7 and in the enclosed Circular.

Risk
Investments in smaller unquoted companies, and in companies quoted on OFEX or AIM, carry substantially more risk than investments in larger companies, or in companies listed on the Official List. Many of the businesses in which the Company invests may be exposed to the risk of political change, exchange controls, tax or other regulations, which may affect the value and marketability of their shares.

The levels and bases of tax reliefs may change.

As the volume of the Company's shares traded on the market is likely to be small, the shares may trade at a significant discount to Net Asset Value.

Further details of the Company's risk profile are contained in Note 19 to the Financial Statements on pages 35 to 37 and in Tax Position of Individual Investors on page 41.

Management and Administration Deed
The Company has an agreement with Aberdeen Asset Managers Limited for the provision of investment management and administrative services. Please refer to page 18 for details of the management and secretarial fees payable.

Your Board

The Board of four Directors, all of whom are non-executive and the majority of whom are considered by the Board to be independent of the Manager, supervises the management of Talisman First Venture Capital Trust PLC and looks after the interests of its Shareholders.

Jonathan D Carr *Chairman*

Status: Independent Non-executive Director
Age: 67
Length of service: He was appointed as a Director and as Chairman on 22 March 2000.
Relevant experience and other directorships: He worked at Phillips and Drew from 1962 to 1967 and at L Messel & Co from 1968 to 1986, specialising in investment trusts. He was manager of the corporate division of Thomson T-Line from 1987 to 1989 and from 1990 to 1993 was director in charge of the London office of Bell Lawrie White. From 1993 to 1997 he was a director of S G Warburg Securities (now UBS), specialising in investment trust corporate broking. He is currently chairman of Galaxy Asset Management Limited, Royal London UK Equity & Income Trust plc and Gartmore Absolute Growth & Income Trust PLC.
Last re-elected to the Board: 25 August 2005
Committee membership: Chairman of Audit, Management Engagement, Nomination and Remuneration Committees.
Employment by the Manager: None
Other connections with the Manager: From April 2005 to March 2006 he was a director of the Income & Growth Trust PLC and Income & Growth Securities PLC.
Shared directorships with other Directors: None
Shareholding in Company: 50,000 Ordinary shares

Stephen J Barclay

Status: Independent Non-executive Director
Age: 64
Length of service: He was appointed as a Director on 22 March 2000.
Relevant experience and other directorships: He qualified as a chartered accountant in 1964 with Robson Rhodes before obtaining an MBA degree from Wharton Business School in 1967. In 1989, after a career during which he reorganised various companies, Mr Barclay established Clifton Financial Associates Plc (now Clink Wharf Associates Limited) to provide corporate finance advice to small to medium sized private and public companies. In August 1998, Clifton Financial Associates Plc was purchased by Talisman House Plc (now Investment Management Holdings plc), where he became group executive chairman. In December 1998, Talisman House Plc purchased the institutional stockbroker, Butterfield Securities Limited, which reverted to its former name of Seymour Pierce Limited and where Mr Barclay became executive chairman. He resigned as a director of Investment Management Holdings plc and various other group companies at the end of March 2001. He is a director of a number of public companies and is a governor of the London School of Economics and Political Science.
Last re-elected to the Board: 25 August 2005
Committee membership: Audit, Management Engagement, Nomination and Remuneration Committees.
Employment by the Manager: None
Other connections with the Manager: None
Shared directorships with other Directors: None
Shareholding in Company: 375,000 Ordinary shares

Brian O J May

Status: Independent Non-executive Director
Age: 45
Length of service: He was appointed as a Director on 22 March 2000.
Relevant experience and other directorships: He graduated from Stanford University, California in 1983. From 1984 to 1988 he worked for Aitken Hume Plc as a small companies fund manager for Sentinel Funds Management Limited. Since 1989, he has been managing director of Berthon Boat Company Limited.
Last re-elected to the Board: 5 October 2004
Committee membership: Audit, Management Engagement, Nomination and Remuneration Committees.
Employment by the Manager: None
Other connections with the Manager: None
Shared directorships with other Directors: None
Shareholding in Company: 225,000 Ordinary shares

William R Nixon

Status: Non-Executive Director
Age: 43
Length of service: He was appointed as a Director on 21 February 2006.
Relevant experience and other directorships: He is head of the growth capital team at Aberdeen Asset Management Private Equity (AAMPE) and a member of the executive management committee of AAMPE. He has led more than 40 completed private equity transactions throughout the UK since commencing his career in private equity in 1991. He is a Fellow of the Chartered Institute of Bankers in Scotland and obtained a Masters of Business Administration degree from Strathclyde University in 1996. Before joining Aberdeen Asset Managers Limited in 1999, he was head of the private equity business at Clydesdale Bank plc, a subsidiary of National Australia Bank. He is an alternate director of Aberdeen Growth VCT I PLC, Aberdeen Growth Opportunities VCT PLC and Aberdeen Growth Opportunities VCT 2 PLC and is also a director of a number of private companies.
Committee membership: None
Employment by the Manager: Since 1999.
Other connections with the Manager: None
Shared directorships with other Directors: None
Shareholding in Company: None

Financial History

	31 March 2006	31 March 2005 (restated)
Assets		
Net assets	£2,646,000	£2,405,000
Ordinary shares		
Revenue return for year	(0.4)p	(0.6p)
Capital return for year	1.3p	(0.2p)
Total return for year	0.9p	(0.8p)
Net Asset Value	10.0p	9.1p
Share price	7.75p	10.5p
Discount/(premium) to Net Asset Value	22.5%	(15.4%)
Ordinary shares in issue at year end	26,545,500	26,545,500

Chairman's Statement

Performance

The Board is pleased to report an increase in the Net Asset Value (NAV) per share at 31 March 2006 to 10.0p compared to 9.1p at 31 March 2005 (as restated). The increase in NAV over the year of £241,000 (10.0%) compares with the increase in stock market indices generally and, in particular, the FTSE AIM index, which rose by 9.7% over the same period.

As reported in last year's Annual Report, Aberdeen Asset Managers was appointed Manager on 2 February 2005, for the major part of the portfolio, except the discretionary account. The improvement in NAV can be directly linked to the performance of the new investments which have been made since the appointment of the Manager as shown in the Summary of Portfolio Performance on page 9.

The discretionary account, managed by Seymour Pierce Ellis Limited, continued to provide a positive return for the Company and, at 31 March 2006, comprised 8 investments with an aggregate value £231,750 and representing 8.76% of net assets. The reduction in the size of this section of the portfolio, from 17.34% of net assets at 31 March 2005, included the return of £225,000 to the main portfolio for re-investment, this sum having been generated through the performance of the discretionary account during the period from its creation in mid 2003.

Portfolio developments

Talisman First Venture Capital Trust has continued to invest in a diversified portfolio of unlisted and AIM quoted investments with good growth prospects and, therefore, the opportunity to generate capital gains in the medium and longer term. During the year ended 31 March 2006, considerable progress was made by adopting a more active trading approach on the AIM portfolio and net gains over the opening valuations of more than £189,000 were realised over the course of the year and a gain of over £44,000 was realised on the OFEX traded investment. In addition unrealised gains of more than £254,000 were generated on the new investments made by the Manager; unfortunately these positive developments were partially offset by reductions in value within the legacy portfolio, although Associated Network Solutions showed a welcome increase in value. The Manager has been actively trading out of the older investments where performance has not been good and using the proceeds to invest in new and better quality opportunities.

Details of the realisations during the course of the year are given in the table on Disposals on page 10.

Investment strategy

The prime objective in the short term is to continue to build a diversified portfolio of unlisted and AIM quoted investments which offer good growth prospects and, therefore, the opportunity for capital gains in the medium and longer term while maintaining the Company's VCT qualifying status.

Valuation process

Investments held by Talisman First Venture Capital Trust in unquoted companies are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which superseded the British Venture Capital Association Valuation Guidelines for reporting periods beginning after 1 January 2005.

Investments which are quoted or traded on the Alternative Investment Market (AIM) or a recognised stock exchange are valued at their bid price. Revised UK Financial Reporting Standards have been introduced for the current financial year which require that listed holdings are valued at their closing bid price where previously they would have been valued at their mid market price. These standards were applied to the opening portfolio which reduced the NAV for comparison purposes to 9.1p from the previously reported 9.5p. Further details are included in Note 20 to the Financial Statements on pages 37 to 39.

Expenses

The net expenses charged to revenue were £147,000, a reduction of 15.5% compared to the previous year. Total expenses for the year ended 31 March 2006 were £208,000 and represented 7.9% of net assets at the year end, compared to £174,000 (7.2%) for the prior year. The expenses for this year include the payment of an incentive fee of £61,000 to the Manager, which has been charged to capital and reflects the performance which has been achieved over the period. Details of the management agreement are contained in the Directors' Report on page 18. The Company has little investment income from its portfolio, but the strategy of making additional investments in unlisted holdings combined with continuing close control of costs should help to reduce, and possibly eliminate in time, the deficit on the revenue account. Unlisted investments are typically structured with a large proportion of the total amount invested in loan stock on which a yield is payable during the life of the investment.

Dividends
The Board is not proposing to pay a dividend. It is anticipated that dividends will principally arise from the realisation of investments above their cost after offsetting administration costs and losses.

Co-investment scheme of the Manager
A co-investment scheme, which will allow executive members of the Manager to invest alongside the Company, has been agreed with the Manager for implementation during the coming year. The Directors believe that the Scheme, which is on similar lines to those operated by other VCT managers, will closely align the interests of the executives and the Company's Shareholders while introducing an incentive to enable the Manager to retain the existing skills and capacity of its management team in a highly competitive market.

The scheme will operate through a nominee company which will invest alongside the Company in each and every transaction made by the Company, including any follow-on investments. In an unlisted investment, the transaction will normally be structured such that 70% to 90% of the investment is by way of fixed interest instrument and 10% to 30% in ordinary shares. The amount which will be invested by the nominee company is fixed at 5% of the value of the ordinary shares which are available to the Company, except where the Company is investing only in ordinary shares. In that case, the amount to be invested by the nominee company will be 1.5% of the amount available to the Company.

Continuation of the Company
The Company's Articles of Association provide that the Board shall, at the Annual General Meeting ("AGM") to be held in 2006, propose an Ordinary Resolution to the effect that the Company shall continue in being as a venture capital trust. If, at that meeting, such a resolution is not passed, the Board shall, within 12 months, convene an Extraordinary General Meeting to propose a Special Resolution for the reorganisation or reconstruction of the Company and, if that Resolution is not passed, a Special Resolution to wind up the Company voluntarily. If the Shareholders resolve that the Company is to continue as a venture capital trust, similar Resolutions will be proposed at every third subsequent AGM, commencing with the AGM to be held in 2009.

In considering the continuation of the Company as a venture capital trust, the Directors draw Shareholders attention to the following:

- a decision to wind up the Company will crystallise any capital gains deferred by Shareholders at the point when they first invested;
- the costs of liquidation would reduce the amount available to Shareholders;
- it is unlikely that the unlisted portfolio can be realised at its book value in the short term; and
- the level of liquidity in the AIM quoted stocks may mean that, in order to realise the holdings, assets would have to be disposed of in a forced sale, possibly in a falling market, and this would further reduce the proceeds available to Shareholders.

The Board believes the continuation of the Company to be beneficial to Shareholders as it allows them to:

- participate fully in the long-term recovery prospects for the Company, as evidenced by successive increases in NAV in the last two six-month reporting periods;
- continue to have access to the asset class at a time when there are an increasing number of opportunities emanating from the recently appointed fund management team; and
- retain their existing capital gains tax and income tax benefits.

In addition, it should be noted that one of the key attractions of investing in a venture capital trust was the opportunity for investors to defer capital gains tax liabilities. In considering the vote to continue, Shareholders should be aware that, if the resolution is not passed, the Company will ultimately lose its venture capital trust status. This would mean that the tax advantage of sheltering capital gains would cease and that capital gains tax liabilities may arise. Shareholders should also be aware that a decision not to continue may set in train a disposal of the portfolio and a subsequent winding up of the Company, which would expose them to the significant risk that the value achieved for their assets may not be sufficient to meet any capital gains tax liabilities due on a capital gain deferred at the point of initial investment.

Further information relating to the continuation of the Company is included in the Circular enclosed with this Annual Report, which also incorporates the notice of the AGM.

The Board believes that the long term continuation of the Company as a venture capital trust is in the best interests of the Shareholders as a whole and recommends to Shareholders that they vote in favour of the continuation resolution at the AGM.

Proposed share consolidation

The Company's Ordinary shares were issued during April and May 2000 at an application price of 20p per share and an effective initial NAV per share of 19p, whereas those of the majority of the VCTs which make up the Company's peer group were issued at 100p on application, with an initial NAV per share of around 95p. As at 19 July 2006, the mid-market price of the Company's shares was 5p and the latest published NAV per share, as at 31 March 2006, was 10.0p. At such a low absolute value, any movement in the share price can have a significant impact on the market capitalisation of the Company and the bid-offer spread can be disproportionate to the share price to the detriment of Shareholders. In addition, the Board has become increasingly aware that the Company does not compare readily with its peers, this having become more evident as the Company's NAV has increased significantly over the past 15 months.

The Directors intend to propose a Resolution at the AGM to seek Shareholder authority for the Company to consolidate its share capital whereby every five Ordinary 10p shares is converted into one Ordinary 50p share. Details of this Resolution and related matters are also included in the Circular enclosed with this Annual Report.

The principal benefit of a consolidation would be that the Company's performance, in terms of share price and NAV return, would be directly comparable to that of most other VCTs. The impact on the Company's share price and NAV per share would be to increase them to around 25p and 50p respectively, compared to an effective application price of 100p per share and an equivalent initial NAV of 95p per share. In addition the Company's shares should then enjoy an improved rating, with a reduced bid-offer spread and less relative volatility in the share price, all of which should help to encourage a secondary market in the shares. It is the Board's recommendation that Shareholders approve the consolidation of the Company's share capital on the basis outlined above.

Annual General Meeting

The Company's Annual General Meeting, at which the Resolutions referred to above will be considered, will take place on 23 August 2006 at 10:00 a.m. in the offices of Aberdeen Asset Management, One Bow Churchyard, London, EC4M 9HH.

Outlook

The Board is pleased to report the first signs of improvement in the performance of your Company. During the year, the Board has worked closely with the new Manager and, having developed a positive relationship with the management team and gained an understanding of its investment philosophies, the Directors are confident that they have made a sound appointment that will be beneficial to the Company and its Shareholders.

It is intended to increase the exposure of the portfolio to unlisted investments that include interest bearing loan stock, which should increasingly cover the expenses incurred by the Company and improve the standing of its revenue account. The Manager will continue to maximise the proceeds from exits from portfolio companies and broaden the base of the portfolio by investing in new opportunities as they arise. The Board and the Manager will continue to consider strategic options for your Company, on the basis that Shareholders support the continuation vote.

Jonathan D Carr
Chairman
24 July 2006

Investment Manager's Report

Investment activity
During the year ended 31 March 2006, 18 new unlisted and AIM investments were completed and a total of £1,106,000 was invested. At the year end, the main portfolio stood at 31 unlisted and AIM investments at a total cost of £3,282,000.

The following new investments have been completed since the publication of the Interim Report:

- **Autoclenz* (December 2005) - £50,000:** Provider of valeting services to automotive retailers, car auction houses, car supermarkets and car rental companies in the UK. (www.autoclenz.co.uk)
- **Avanti Screenmedia* (November 2005) - £35,000:** Provider of in-store media services to the retail and leisure sector. (www.avanti-screenmedia.com)
- **Cohort* (February 2006) - £50,000:** Independent technical services company delivering services to the defence sector. (no website available)
- **Datong Electronics* (October 2005) - £50,000:** Producer of devices that enable government intelligence and defence agencies covertly to track vehicles and mobile phones. (www.datong.co.uk)
- **Fieldstreet (Investments) (October 2005) - £50,000:** Fieldstreet is the name of the vehicle which acquired Cox Insurance in a public to private transaction. Cox is a mid-sized insurance business focused on predominately niche risk areas within motor insurance. (www.cox.co.uk)
- **Gold Frost* (March 2006) - £50,000:** Distributor of kosher food products. (no website available)
- **Hambledon Mining* (March 2006) - £50,000:** Hambledon is a mining and exploration company developing precious metal deposits in Kazakhstan. (www.hambledon-mining.com)
- **Invocas* (March 2006) - £50,000:** Invocas is an insolvency business that specialises in advising and administering protected trust deeds and sequestrations as well as providing corporate insolvency and advisory services (www.invocas.com).
- **Litcomp* (October 2005) - £50,000:** Litcomp is a national supplier of medical reports in support of legal actions. (www.legal-reports.co.uk)
- **Mattioli Woods* (November 2005) - £36,000:** Provider of pension consultancy, trouble-shooting and administration services to companies, owners of businesses and professional persons. (www.mattioli-woods.com)
- **MTI Wireless Edge* (March 2006) - £50,000:** Developer & manufacturer of sophisticated antennas and antenna systems for fixed broadband wireless communications. (www.mtiwe.com)
- **Work Group* (February 2006) - £100,000:** Work Group is a leading UK recruitment services provider that helps employers to recruit and retain their staff more effectively. (www.workcomms.com).

* Quoted on AIM

Talisman First Venture Capital Trust has co-invested with Aberdeen Development Capital, Aberdeen Growth VCT I, Aberdeen Growth Opportunities VCT, Aberdeen Growth Opportunities VCT 2 and Murray VCT 4 in some or all of the above transactions and is expected to continue to do so with these as well as other clients of the Manager. The advantage is that, together, these clients are able to underwrite a wider range and size of transaction than would be the case on a stand-alone basis.

Portfolio developments
The Summary of Portfolio Performance on page 9 demonstrates that investments made on behalf of the Company by Aberdeen Asset Managers, as Manager, have provided a net gain, comprising amounts realised and unrealised, of £353,700 during the year ended 31 March 2006, representing 26.1% of the opening valuation plus invested cost. The legacy portfolio contributed a gain of £83,800, representing 5.7% of opening value plus amounts invested.

The Manager has been actively engaged in realising those investments where little upside is expected and re-investing the proceeds in new opportunities with better prospects. The schedule of Disposals on page 10 shows the realisations which have been made during the year, analysed between those investments made before and after the appointment of the Manager. During the year ended 31 March 2006, disposals of investments made by Aberdeen Asset Managers Limited produced a net realised gain of £100,900, while a loss of £380,400 was incurred on the legacy portfolio.

The Company has also invested in a small number of unlisted investments and this will become an increasing feature of the portfolio. Unlisted investments are structured in such a way that a large proportion (up to 90% of the total investment) is in loan stock, which pays a yield while offering some downside protection; this is attractive to the Company as it offsets the expenses incurred by the Company that otherwise would be a drag on the NAV.

Outlook
The outlook for new investments remains positive with a steady flow of both unlisted and AIM quoted opportunities available for consideration by the Manager. The primary focus remains on building a properly diversified portfolio of good quality smaller company assets which will deliver sustained long term performance. The intensive work on repositioning the investment portfolio will continue throughout 2006 and beyond.

Aberdeen Asset Managers Limited
24 July 2006

Summary of Portfolio Performance

For the year ended 31 March 2006

	Valuation 31 March 2005 (restated) £'000	Purchase cost £'000	Sales proceeds £'000	Gain/(loss) realised over previous valuation £'000	Unrealised gain/(loss) against previous valuation £'000	Valuation 31 March 2006 £'000	Total gain/(loss) £'000
Legacy portfolio							
Unlisted	190.2	–	–	–	(31.7)	158.5	(31.7)
OFEX	230.0	2.0	99.8	44.6	129.3	306.1	173.9
AIM	1,032.2	3.0	721.7	90.6	(149.3)	254.8	(58.7)
	1,452.4	**5.0**	**821.5**	**135.2**	**(51.7)**	**719.4**	**83.5**
Investments made after the appointment of Aberdeen Asset Managers							
Unlisted	–	100.0	–	–	–	100.0	–
AIM	173.5	1,082.1	449.2	98.9	254.8	1,160.1	353.7
	173.5	**1,182.1**	**449.2**	**98.9**	**254.8**	**1,260.1**	**353.7**
Total portfolio*	**1,625.9**	**1,187.1**	**1,270.7**	**234.1**	**203.1**	**1,979.5**	**437.2**

* total portfolio excludes items classified as "other investments" in the Investment Portfolio Summary on page 11.

Disposals

Year ended 31 March 2006

	Year first invested	Complete/ partial exit	Cost of shares disposed of £'000	Sales proceeds £'000	Realised gain/(loss) £'000
Legacy portfolio					
OFEX					
Associated Network Solutions	2000	Partial	60.1	99.8	39.7
AIM					
Bank Restaurant Group	2000	Partial	50.0	5.0	(45.0)
Computer Software	2001	Partial	245.2	274.8	29.6
Hotgroup	2001	Complete	125.0	42.2	(82.8)
Huveaux	2001	Complete	218.3	290.1	71.8
Interactive Digital Solutions	2001	Partial	7.1	2.6	(4.5)
Lo-Q	2000	Partial	156.3	13.1	(143.2)
Maverick Entertainment	2001	Complete	176.0	31.1	(144.9)
Transport Systems	2001	Partial	163.9	62.8	(101.1)
Total AIM			1,141.8	721.7	(420.1)
Total legacy portfolio			**1,201.9**	**821.5**	**(380.4)**
Investments made after the appointment of Aberdeen Asset Managers					
AIM					
Autoclenz	2005	Partial	4.9	5.1	0.2
Datong Electronics	2005	Partial	3.8	3.9	0.1
Gladstone	2005	Complete	50.2	36.5	(13.7)
Gold Frost	2006	Partial	7.0	8.1	1.1
Inspicio	2005	Partial	22.7	27.5	4.8
Leisure & Gaming	2005	Partial	4.4	7.5	3.1
Mattioli Woods	2005	Partial	20.6	32.1	11.5
Neutrahealth	2005	Partial	2.5	3.1	0.6
Talarius	2005	Partial	92.5	142.1	49.6
United Clearing	2005	Complete	104.6	136.2	31.6
Zetar	2005	Partial	35.1	47.1	12.0
Total new portfolio			**348.3**	**449.2**	**100.9**
Total sales			**1,550.2**	**1,270.7**	**(279.5)**

Investment Portfolio Summary

As at 31 March 2006

	Cost £	Valuation £	% of net assets	% of equity held	% of equity held by other clients*
AIM investments					
Autoclenz	45,098	46,901	1.77	0.3	1.4
Avanti Screenmedia	36,006	40,515	1.53	0.1	2.7
Bank Restaurant Group	200,000	17,500	0.66	1.4	–
Billing Services Group	81,136	81,136	3.07	–	0.3
Cohort	49,969	58,094	2.19	0.5	2.0
Computer Software	66,335	82,000	3.10	0.2	–
Datong Electronics	46,180	32,470	1.23	0.3	1.7
Flightstore Group	100,000	2,000	0.07	1.0	–
Gold Frost	43,023	52,856	2.00	0.2	1.2
Hambledon Mining	50,000	63,750	2.41	0.1	0.3
Imprint	50,399	49,665	1.88	–	0.5
Inspicio	28,278	34,637	1.31	–	0.2
Interactive Digital Solutions**	367,857	100,425	3.80	7.7	–
Invocas	49,999	78,827	2.98	0.5	1.8
Leisure & Gaming	65,599	103,760	3.92	0.1	0.8
Litcomp	50,000	127,500	4.82	–	5.4
Lo-Q	193,681	16,727	0.63	1.3	–
Mattioli Woods	15,377	24,039	0.91	0.1	0.4
MTI Wireless Edge	50,000	65,385	2.47	0.4	1.2
Neutrahealth	48,565	52,887	2.00	0.3	3.1
Talarius	58,683	117,791	4.45	0.1	0.8
Transport Systems	142,025	36,400	1.38	4.4	–
Work Group	100,000	101,863	3.85	0.9	5.5
Zetar	16,181	27,902	1.05	0.1	1.3
	1,954,391	1,415,030	53.48		
OFEX investments					
Associated Network Solutions	191,940	306,098	11.57	3.2	–
Unlisted investments					
Fieldstreet (Investments)	50,007	49,950	1.89	–	1.4
Fotolec Technologies	250,000	75,000	2.83	4.2	–
Isle of Wight Cable & Telephone Company	221,600	–	–	1.9	–
Original Shoe Company	50,000	50,000	1.89	0.3	33.2
Patersons Consulting	362,000	–	–	20.0	–
Spectral Fusion Technologies	201,992	83,451	3.15	4.8	–
	1,135,599	258,401	9.76		
Other investments					
Barclays Global Investors Funds	12,318	34,474	1.30		
Pershing Nominees ***	263,021	231,750	8.76		
Net current assets/cash	400,412	400,412	15.13		
Net assets as at 31 March 2006	**3,957,681**	**2,646,165**	**100.00**		

* other clients of the Aberdeen Asset Management Group of companies.
** trading suspended with effect from 30 March 2006; further details can be found in Ten Largest Investments on page 13.
*** Pershing Nominees made up as follows:

Angel Biotech	21,199	19,250	0.73
Artisan	44,520	43,750	1.65
Buckland Group	30,000	8,000	0.30
Bulgarian Land Development	50,000	52,500	1.98
Coffee Republic	16,654	15,750	0.60
Fairplace Consulting	30,000	32,500	1.23
Nadlan	30,280	22,500	0.85
Sectorguard	40,368	37,500	1.42
	263,021	**231,750**	**8.76**

Ten Largest Investments

ASSOCIATED NETWORK SOLUTIONS PLC		Manchester	*www.ansplc.com*	
Cost (£'000)	192		**2005**	**2004**
Valuation (£'000)	306	**Year ended 31 March**	**£'000**	**£'000**
Basis of valuation	Market price	Sales	4,119	3,679
Equity held	3.2%	Profit/(loss) before tax	369	(187)
Income received	Nil	Retained profit/(loss)	108	(216)
First invested	July 2000	Net assets	1,239	1,278

Associated Network Solutions is an IT solutions provider in a number of speciality areas such as identity management, information integration and secure web services.

Other AAMPE clients invested None.

LITCOMP PLC		Grantham, Lincolnshire	*www.legal-reports.co.uk*	
Cost (£'000)	50		**2005**	**2004**
Valuation (£'000)	128	**Year ended 31 March**	**£'000**	**£'000**
Basis of valuation	Market price	Sales	3,195	2,416
Equity held	Nil	Profit/(loss) before tax	197	133
Income received	Nil	Retained profit/(loss)	148	99
First invested	October 2005	Net assets	1,037	889

Litcomp is a national supplier of medical reports in support of legal actions. The investment is held in convertible loan stock.

Other AAMPE clients invested Aberdeen Growth VCT I, Aberdeen Growth Opportunities VCT, Aberdeen Growth Opportunities VCT 2.

TALARIUS PLC		London	*www.talarius.com*
Cost (£'000)	59		**2005**
Valuation (£'000)	118	**Period ended 31 December**	**£'000**
Basis of valuation	Market price	Sales	49,565
Equity held	0.1%	Profit/loss) before tax	1,330
Income received	Nil	Retained profit/(loss)	937
First invested	March 2005	Net assets	35,766

Talarius operates adult gaming centres in high street locations.

Other AAMPE clients invested Aberdeen Growth VCT I, Aberdeen Growth Opportunities VCT 2, Murray VCT 4.

LEISURE & GAMING PLC		London	*www.lngplc.com*	
Cost (£'000)	66		**2005**	**2004**
Valuation (£'000)	104	**Year ended 31 December**	**$'000**	**$'000**
Basis of valuation	Market price	Sales	708,200	330,688
Equity held	0.1%	Profit/(loss) before tax	23,700	5,196
Income received	Nil	Retained profit/(loss)	16,590	3,637
First invested	June 2005	Net assets	200	4,062

Leisure & Gaming operates in the on-line gaming sector and acquired VIP a US facing business comprising sports betting, horse racing and casino games.

Other AAMPE clients invested Aberdeen Growth VCT I, Aberdeen Growth Opportunities VCT 2, Murray VCT 4.

WORK GROUP PLC		London	*www.workcomms.com*	
Cost (£'000)	100		**2005**	**2004**
Valuation (£'000)	102	**Year ended 31 December**	**£'000**	**£'000**
Basis of valuation	Market price	Sales	34,100	31,050
Equity held	0.9%	Profit/(loss) before tax	1,600	479
Income received	Nil	Retained profit/(loss)	1,120	61
First invested	February 2006	Net assets	7,300	1,100

Work Group is a recruitment services provider which seeks to assist its clients to improve their staff retention.

Other AAMPE clients invested Aberdeen Growth VCT I, Aberdeen Growth Opportunities VCT, Aberdeen Growth Opportunities VCT 2.

INTERACTIVE DIGITAL SOLUTIONS PLC London *www.ids-plc.com*

Cost (£'000)	368		**2004**	**2003**
Valuation (£'000)	100	**Year ended 30 September**	**£'000**	**£'000**
Basis of valuation	Market price	Sales	314	191
Equity held	7.7%	Profit/(loss) before tax	(1,051)	(1,143)
Income received	Nil	Retained profit/(loss)	(1,011)	(1,107)
First invested	August 2001	Net assets	Nil	Nil

Interactive Digital Solutions is a software development company which has developed an advanced system for providing interactive digital business and entertainment services within a network aimed at hospital markets.

On 30 March 2006, the company announced a temporary suspension of trading in its shares pending publication of its Annual Report and Accounts.

Other AAMPE clients invested None.

SPECTRAL FUSION TECHNOLOGIES LIMITED Birmingham *www.spectralft.com*

Cost (£'000)	202		**2005**	**2004**
Valuation (£'000)	83	**Year ended 31 May**	**£'000**	**£'000**
Basis of valuation	Market value assessment	Sales	324	903
		Profit/(loss) before tax	(570)	(517)
Equity held	4.8%	Retained profit/(loss)	492	442
Income received	Nil	Net assets	422	377
First invested	May 2002			

Spectral Fusion Technologies is a company specialising in the design and development of industrial imaging systems. The technology is used everyday by international clients in the poultry, red meat and fish industries.

Other AAMPE clients invested None.

COMPUTER SOFTWARE PLC London *www.computersoftware.com*

Cost (£'000)	66		**2005**	**2004**
Valuation (£'000)	82	**Year ended 28 February**	**£'000**	**£'000**
Basis of valuation	Market price	Sales	14,072	6,253
Equity held	0.2%	Profit/(loss) before tax	928	(343)
Income received	Nil	Retained profit/(loss)	1,267	128
First invested	August 2000	Net assets	23,466	6,285

Computer Software provides integrated software solutions to the sports industry.

Other AAMPE clients invested None.

BILLING SERVICES GROUP PLC US and London *www.bsgclearing.com*

Cost (£'000)	81		**2005**	**2004**
Valuation (£'000)	81	**Year ended 31 December**	**$'000**	**$'000**
Basis of valuation	Market price	Sales	157,313	141,332
Equity held	0.03%	Profit/(loss) before tax	8,971	9,237
Income received	Nil	Retained profit/(loss)	5,138	5,748
First invested	March 2006	Net assets	429,029	259,987

Billing Services Group provides billing services to the telecommunications industry.

Other AAMPE clients invested Aberdeen Growth VCT I, Aberdeen Growth Opportunities VCT, Aberdeen Growth Opportunities VCT 2, Murray VCT 4.

INVOCAS PLC London *www.invocas.com*

Cost (£'000)	50	
Valuation (£'000)	79	**Year ended 31 March***
Basis of valuation	Market price	Sales
Equity held	0.5%	Profit/(loss) before tax
Income received	Nil	Retained profit/(loss)
First invested	March 2006	Net assets

Invocas is an insolvency business that specialises in advising and administering protected trust deeds and sequestrations as well as providing corporate insolvency and advisory services.

*The company was newly formed on flotation and has not yet produced its first annual report and accounts.

Other AAMPE clients invested Aberdeen Growth Opportunities VCT.

All investments on pages 12 and 13 are quoted on AIM except for Associated Network Solutions, which is quoted on OFEX, and Computer Software, which is unlisted.

Talisman First Venture Capital Trust PLC

Directors' Reports & Financial Statements

Year ended 31 March 2006

Directors' Report

The Directors submit their Annual Report together with the Financial Statements of the Company for the year ended 31 March 2006.

Business review

A review of the Company's operations is given in the following pages (numbered 16 to 18), in the Corporate Summary on page 1, in the Chairman's Statement on pages 5 to 7 and in the Investment Manager's Report on page 8.

Results and dividends

The gain on ordinary activities after taxation, for the year ended 31 March 2006, was £241,000 (2005 – restated loss of £221,000). The Directors do not recommend the payment of a final dividend. The Net Asset Value per Ordinary share at 31 March 2006 was 10.0p (restated 2005 – 9.10p). The Net Asset Value per Ordinary share has been calculated using the number of shares in issue at 31 March 2006 of 26,545,500 (2005 – 26,545,500).

Continuation of the Company

The Company's Articles of Association provide that the Board shall, at the Annual General Meeting to be held in 2006, propose an Ordinary Resolution to the effect that the Company shall continue in being as a venture capital trust. If, at that meeting, such a resolution is not passed, the Board shall, within 12 months, convene an Extraordinary General Meeting to propose a Special Resolution for the reorganisation or reconstruction of the Company and, if that Resolution is not passed, a Special Resolution to wind up the Company voluntarily. If the Shareholders resolve that the Company is to continue as a venture capital trust, similar Resolutions will be proposed at every third subsequent Annual General Meeting, commencing with the one to be held in 2009.

Accordingly, a resolution to propose that the Company continues as a venture capital trust will be put to Shareholders at the Annual General Meeting to be held on 23 August 2006 and further details on this are provided in the Chairman's Statement on page 6 and in the enclosed Circular.

Proposed share consolidation

The Directors propose that the Company should consolidate its share capital whereby every five ordinary 10p shares is converted into one 50p share and a Resolution to that effect will be proposed at the Annual General Meeting. An explanation of this proposal is provided in the Chairman's Statement on page 7 and in the enclosed Circular.

Purchase of Ordinary shares

The Company has authority to make market purchases of its own shares, although no such transactions have been effected during the year ended 31 March 2006.

A special resolution, numbered 7 in the Notice of Meeting, will be put to Shareholders for their authority for the Company to purchase in the market a maximum of 14.99% of Ordinary shares in issue (3,979,170 Ordinary shares) at 31 March 2006. Such authority will expire on the date of the next Annual General Meeting or after a period of 15 months from the date of passing of the resolution, whichever is the earlier. This means, in effect, that the authority will have to be renewed at the next Annual General Meeting of the Company. Purchases of Ordinary shares will be made within guidelines established from time to time by the Board, but only if it is considered that such purchases would be to the advantage of the Company and its Shareholders taken as a whole. Purchases will be made in the market for cash only at prices below the prevailing Net Asset Value per Ordinary share. Under the Listing Rules of the UK Listing Authority, the maximum price that may be paid on the exercise of this authority must not exceed 105 per cent of the average of the middle market quotations for the shares over the five business days immediately preceding the date of purchase. The minimum price that may be paid is 10p per share. In making purchases, the Company will deal only with member firms of the London Stock Exchange. Shares which are purchased will be cancelled.

Purchases of Ordinary shares by the Company will be made from reserves and the purchase price will normally be paid out of cash balances held by the Company from time to time. The purchase of Ordinary shares by the Company is intended to provide liquidity in the shares and enhance the Net Asset Value for the remaining shareholders. Since it is anticipated that any purchases will be made at a discount to Net Asset Value at the time of purchase, the Net Asset Value of the remaining Ordinary shares in issue should increase as a result of any such purchase. Shares will not be purchased by the Company in the period of two months immediately preceding the notification of the Company's interim results and the two months immediately preceding the preliminary announcement of the annual results or, if shorter, the period from the end of the Company's relevant financial period up to and including the time of the relevant announcement.

Issue of new Ordinary shares

Resolution numbered 8 in the Notice of Meeting will be put to Shareholders at the Annual General Meeting for their approval for the Company to issue up to an aggregate nominal amount of £265,455 (equivalent to 2,654,550 Ordinary shares or 10% of the total issued share capital at 31 March 2006). Further issues of new Ordinary shares may only be made at a premium to Net Asset Value per share, thus ensuring existing investors will not be disadvantaged by such issues. The proceeds of any issue may be used to purchase the Company's Ordinary shares in the market or to fund further investments in accordance with the Company's investment policy. This authority shall expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first to occur.

When shares are to be allotted for cash, Section 89(1) of the Companies Act 1985 provides that existing Shareholders have pre-emption rights and that the new shares are offered first to such Shareholders in proportion to their existing shareholdings. However, Shareholders can, by special resolution, authorise the Directors to allot shares otherwise than by a pro rata issue to existing Shareholders. Resolution 9 will, if passed, give the Directors power to allot for cash, Ordinary shares up to an aggregate nominal amount of £265,455 (equivalent to 2,654,550 Ordinary shares or 10% of the total issued share capital at 31 March 2006) as if Section 89(1) does not apply. This is the same amount of share capital that the Directors are seeking the authority to allot pursuant to resolution 8. The authority will also expire either at the conclusion of the next Annual General Meeting of the Company or on the expiry of 15 months from the passing of the relevant resolution, whichever is the first to occur. The Company will not use this authority in connection with a rights issue.

Directors

Biographies of the Directors who held office at 31 March 2006 are shown on pages 2 and 3. In accordance with the Articles of Association, Directors must offer themselves for re-election at least once every three years and Mr B O J May, whose biography appears on page 3, retires by rotation at the Annual General Meeting and, being eligible, offers himself for re-election. In addition, Mr W R Nixon, who was appointed as a Director on 21 February 2006 and whose biography also appears on page 3, retires at the Annual General Meeting, being the first following his appointment, and seeks re-election. Resolutions to this effect will be proposed at the Annual General Meeting.

No contract or arrangement significant to the Company's business and in which any of the Directors is interested has subsisted during the year.

The interests of the Directors in the share capital of the Company are as follows:

	31 March 2006 Ordinary shares of 10p	**31 March 2005 Ordinary shares of 10p**
J D Carr (Chairman)	50,000	50,000
S J Barclay	375,000	375,000
B O J May	225,000	225,000
W R Nixon (appointed 21 February 2006)	–	n/a

There have been no further changes to any of the above share interests since the end of the financial year. All of the interests shown above are beneficial.

Share interests

At 24 July 2006, as far as the Directors have been made aware and in addition to the interests of the Directors as noted above, the following have individual interests in the Company's issued share capital:

	Ordinary shares of 10p	**% of ordinary capital**
Mr E Lovett-Turner, Mr N Lovett-Turner and Miss A Lovett-Turner	1,500,000	5.7
The Corporation of Lloyds	1,000,000	3.8
Mr R G Lagden and Mrs E V Lagden	1,000,000	3.8
Pershing Keen Nominees Limited	988,500	3.7

Manager and Company Secretary
Aberdeen Asset Managers Limited ("the Manager") provides investment management, accounting, company secretarial and administrative services to the Company and the key features of the management contract include:

- the initial term is for a period of two years and, thereafter, the Management and Administration Deed is terminable by the Manager giving to the Company not less than 12 months' notice in writing or by the Company giving to the Manager not less than 12 months' notice in writing. Notwithstanding these terms, the Deed may be terminated by either party giving written notice to the other if that other commits a material breach of the Deed and, if the breach is capable of remedy, fails to rectify the same within 30 days of being requested to do so. The Deed may also be terminated immediately if the Manager ceases to be authorised or permitted to act as discretionary investment manager, or if either party enters into liquidation or has a receiver or administrator appointed over it or any of its undertakings or assets;
- the Company shall pay remuneration for the services to the Manager by way of an annual fee of £96,500, payable quarterly in advance. Out of this fee, the Manager shall pay, on behalf of the Company, the annual Directors' fees payable by the Company to the Directors (excluding any performance payments); and
- an incentive fee, at the rate of 20% of any uplift, shall become payable if the value of the Company's assets, excluding the discretionary account, at the agreed reference date exceeds that at the previous reference date and the anniversary of the Commencement Date and the fund value on each anniversary of the Commencement Date.

The effects of these arrangements for the year ended 31 March 2006 are detailed in Notes 3 and 4 to the Financial Statements on page 31.

The Board considers that the continued appointment of Aberdeen Asset Managers Limited as Manager, on the agreed terms, is in the best interests of the Company and its Shareholders.

Corporate governance
The Statement of Corporate Governance is shown on pages 21 to 24.

Principal activity and status
The Company's affairs have been conducted, and will continue to be conducted in a manner to satisfy the conditions to enable it to continue to obtain approval as a venture capital trust under Section 842AA of the Income and Corporation Taxes Act 1988. HMRC will grant Section 842AA status, if requested, provided that the Company's affairs have been conducted in such a manner as to satisfy the conditions of that Section.

Going concern
The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Financial Statements, as the Company has adequate financial resources to enable it to continue in operational existence for the foreseeable future.

Creditor payment policy
The Company's creditor payment policy is to agree terms of payment before business is transacted, to ensure suppliers are aware of these terms and to settle bills in accordance with them. The Company did not have any trade creditors at the year end.

Financial instruments
The Company's financial instruments comprise its investment portfolio, cash balances and debtors and creditors that arise directly from its operations, including accrued income and purchases and sales awaiting settlement. The main risks that the Company faces arising from its financial instruments are disclosed in Note 19 to the Financial Statements on pages 35 to 37.

Annual General Meeting
The notice of the Annual General Meeting, which will be held on 23 August 2006, is contained in the Circular enclosed with this Report.

Awareness of relevant audit information
The Directors who held office at the date of approval of the Director's Report confirm that, so far as they are individually aware, there is no relevant audit information of which the Company's Auditors are unaware and that each Director has taken all the steps that he should have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Auditors
The Auditors, CLB Littlejohn Frazer, have expressed their willingness to remain in office. A resolution to re-appoint CLB Littlejohn Frazer as the Company's Auditors will be put to the forthcoming Annual General Meeting, along with a further resolution to authorise the Directors to fix their remuneration.

One Bow Churchyard
Cheapside
London EC4M 9HH
24 July 2006

By order of the Board
Aberdeen Asset Management PLC
Secretary

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Schedule 7A to the Companies Act 1985. An ordinary resolution for the approval of this report will be put to the Members of the Company 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. The Auditors' opinion is included in their report on page 26.

Remuneration Committee

At 31 March 2006, the Company had four non-executive Directors and the three independent Directors fufil the function of a Remuneration Committee, which is chaired by Mr J D Carr. The names of the Directors who served during the year are shown on page 20, together with the fees paid during the year. During the year under review, the Board has not been provided with advice and services in respect of its consideration of the Directors' remuneration. The Directors expect, from time to time, to review the fees paid to the boards of directors of other venture capital trust companies.

Policy on Directors' remuneration

The Board's policy is that the remuneration of the Directors, all of whom are non-executive Directors, should reflect the experience of the Board as a whole and be fair and comparable to that of other venture capital trusts with a similar capital structure and similar investment objectives. It is intended that this policy will continue for the year ended 31 March 2007 and for subsequent years.

The Company's policy is for the Directors to be remunerated in the form of fees, payable quarterly in arrears, to the Director personally or to a third party specified by him. The fees for the Directors, all of whom are non-executives, are determined within the limits set out in the Company's Articles of Association, which limit the aggregate of the fees payable to the Directors to £250,000 per annum. In practice, and as noted in the Directors' Report on page 18, the Manager pays, on behalf of the Company, the fees due to the Directors from the amount paid to the Manager under the terms of the management contract. The Company's policy is that fees payable to the Directors should reflect the performance of the Company and the time spent by the Directors on the Company's affairs, and should be sufficient to enable candidates of a high quality to be recruited. Non-executive Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits. However, there is an arrangement whereby, once the sum of 25p per share has been distributed to the holders of Ordinary shares, all independent Directors are each entitled to 2 per cent of any further dividends or capital distributions.

At its meeting on 21 February 2006, the Remuneration Committee carried out a review of Directors' fees and concluded that, although there would be no change to the level of remuneration, the policy would be to continue to review these rates from time to time.

Directors' and Officers' liability insurance

As permitted by Section 310(s) of the Companies Act 1985, the Company purchases and maintains liability insurance covering the Directors and Officers of the Company. This insurance is not a benefit in kind, nor does it form part of the Directors' remuneration.

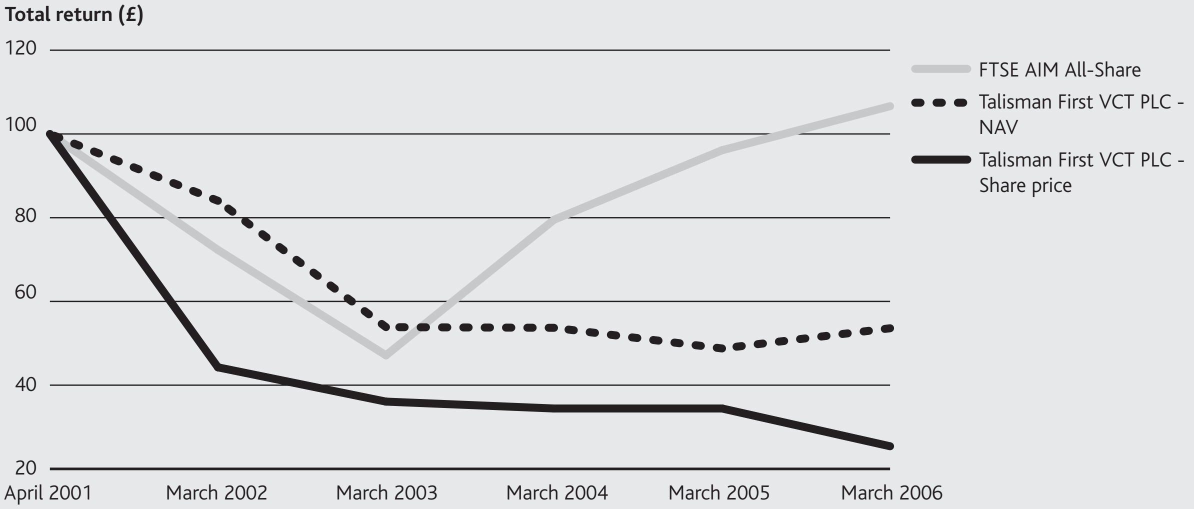
Directors' service contracts

None of the Directors has a contract of service or contract for services and a Director may resign by giving three months' notice in writing to the Board at any time.

The Articles of Association provide that, at the Annual General Meeting each year, one third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to one third) shall be subject to retirement by rotation. Directors, therefore, shall retire and be subject to re-election at the first Annual General Meeting following their appointment and, thereafter, shall be obliged to retire by rotation, and offer themselves for re-election, at least every three years. No compensation is payable for loss of office, save any arrears of fees which may be due.

Company performance

The graph on page 20 compares the total return on an investment of £100 in the Ordinary shares of the Company, for each annual accounting period for the five years to 31 March 2006, assuming any dividends are reinvested, with the total shareholder return on a notional investment of £100 made up of shares of the same kinds and number as those by reference to which the FTSE AIM All-Share Index is calculated. This index was chosen for comparison purposes as it is the most relevant to the Company's investment portfolio.



Source: Aberdeen Asset Managers/Factset

In the above graph, periods prior to the year ended 31 March 2005 reflect investments in listed and AIM quoted securities valued at mid-market price. Please note that past performance is not necessarily a guide to future performance.

Directors' emoluments for the year (audited)

The following emoluments were receivable by the Directors who served during the year ended 31 March 2006:

Directors	For the year ended 31 March 2006 £	For the year ended 31 March 2005 £
J D Carr (Chairman)	6,500	6,500
S J Barclay*	5,000	5,000
B O J May	5,000	5,000
W R Nixon (appointed 21 February 2006)	–	–
D A Horner (resigned 3 March 2005)	–	4,583
M Rowlinson (resigned 3 March 2005)	–	4,583
J L Scaiffe (resigned 24 March 2005)	–	4,583
Total	16,500	30,249

*Mr Barclay's fees are paid to Clink Wharf Associates Limited.

No performance fees, other remuneration, benefit or pension retirement benefits were paid during the year.

No Director has received any taxable expenses, compensation for loss of office or non-cash benefit for the year ended 31 March 2006 (2005 – nil).

Approval

The Directors' Remuneration Report on pages 19 and 20 was approved by the Board of Directors and signed on its behalf by:

J D Carr
Director

24 July 2006

Statement of Corporate Governance

The Company is committed to a high standard of corporate governance. The Board has put in place a framework for corporate governance that it believes is appropriate for a venture capital trust and which enables it to comply with the new Combined Code prepared by the Committee on Corporate Governance and published in July 2003.

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the provisions of the new Combined Code throughout the year ended 31 March 2006. The exceptions to Compliance with the new Combined Code, which are explained more fully under the headings of "The Board" and "Directors' Remuneration", were as follows:

- a senior non-executive Director has not been appointed in accordance with Code requirement A3.3; and
- Guidance Note (Guidance for Audit Committees) 2.4 states that the chairman of the company should not be a member of the audit committee. However, the other Directors consider that the Chairman's knowledge and experience are relevant to membership of the Audit Committee of the Company.

It should be noted that:

- non-executive Directors are not appointed for specific terms. However, and without prejudice to the provision for retirement contained in the Company's Articles of Association, under appointment letters between each of the Directors and the Company, each of the Directors was appointed until determined by either party on three months' notice; and
- as the Company is a venture capital trust and all of its Directors are non-executive, the Company is not required to comply with the principles of the Combined Code in respect of executive Directors' remuneration.

The Board

Following the appointment of Mr W R Nixon on 21 February 2006, the Board currently consists of four Directors who, with the exception of Mr Nixon, are considered to be independent of the investment manager ("Aberdeen Asset Managers Limited" or the "Manager") and free of any relationship which could materially interfere with the exercise of their independent judgement. The biographies of the Directors appear on pages 2 and 3 of this report and indicate their high level and range of investment, industrial, commercial and professional experience. The Board meets at least four times a year and, between these meetings, maintains contact with the Manager. It has formally adopted a schedule of matters which 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. These matters include:

- appointment and removal of the Manager and the terms and conditions of the management and administration deed;
- the maintenance of clear investment objectives and risk management policies;
- the monitoring of the business activities of the Company ranging from comparable investment performance through to annual budgeting and quarterly forecasting;
- Companies Act requirements such as the approval of the interim and annual financial statements and recommendation of interim and final dividends;
- major changes relating to the Company's structure, including share buy-backs and share issues;
- Board appointments and related matters;
- terms of reference and membership of Board Committees; and
- Stock Exchange, UK Listing Authority and Financial Services Authority matters, such as approval of all circulars, listing particulars and releases concerning matters decided by the Board.

There is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. The Directors have access to the advice and services of the corporate Company Secretary through its appointed representatives who are responsible to the Board for:

- ensuring that Board procedures are complied with;
- under the direction of the Chairman, ensuring good information flows with the Board and its committees; and
- advising on corporate governance matters.

When a Director is appointed, the Manager will arrange for a tailored induction meeting, covering details about the Company, the Manager, legal responsibilities and venture capital industry matters. Directors are provided, on a regular basis, with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting Directors' responsibilities are advised to the Board as they arise.

The Chairman of the Company is a non-executive Director. A senior non-executive Director has not been appointed as all of the Directors are non-executive and the Board considers that each of the Directors has different qualities and areas of expertise on which they may lead. Consequently, no individual has unfettered powers of decision.

During the year ended 31 March 2006, the Board met seven times. The primary focus of quarterly Board meetings is a review of investment performance and related matters including asset allocation, peer group information and industry issues. In addition, there were two meetings each of the Audit, Nomination, Management Engagement and Remuneration Committees.

Directors have attended Board and Committee meetings during the year ended 31 March 2006 as follows:

Director	**Board meetings**	**Audit Committee meetings**	**Management Engagement Committee meetings**	**Nomination Committee meetings**	**Remuneration Committee meetings**
J D Carr (Chairman)	7	2	2	2	2
S J Barclay	6	2	2	1	2
B O J May	6	1	1	1	1
W R Nixon (appointed 21 February 2006)*	–	–	–	–	–

* No meetings were held between Mr Nixon's date of appointment and 31 March 2006.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including the Manager's review and discussion documents regarding specific matters. The Directors make further enquiries when necessary.

External agencies

The Board has contractually delegated to external agencies, including the Manager, certain services: the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the registration services and the day to day accounting and company secretarial requirements. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board receives and considers reports from the Manager on a regular basis. In addition, ad hoc reports and information are supplied to the Board as requested.

Committees

Each of the Committees has been established, with written terms of reference that are available on request, and comprise the independent Directors, each of whom are free from any relationship that would interfere with important judgement in carrying out their responsibilities.

Audit Committee

The Committee, comprising the independent Directors and chaired by Mr J D Carr, discharges its responsibilities through:

- the review of the effectiveness of the internal control environment of the Company including by receiving reports from internal and external auditors on a regular basis;
- the review of the Interim and Annual Reports and Financial Statements;
- the review of the terms of appointment of the Auditors, together with their remuneration, as well as any non-audit services provided by the Auditors;
- the review of the scope and results of the audit and the independence and objectivity of the Auditors;
- the review of the Auditors' management letter and the management response; and
- meetings with representatives of the Manager.

Two meetings were held during the year. The terms of reference of the Committee are reviewed and reassessed for their adequacy at each meeting and at least one member of the Committee has recent and relevant financial experience. The Chairman of the Company is also the Chairman of the Audit Committee, as the other Directors' consider that his knowledge and experience are relevant to the position.

During the year ended 31 March 2006, the Company's external Auditors were CLB Littlejohn Frazer. Shareholders are asked to approve the re-appointment of the Auditors at each Annual General Meeting. The Company has in place a policy governing and controlling the provision of non-audit services by the external Auditors, so as to safeguard their independence and objectivity. This is achieved by prohibiting non-audit work where independence may be compromised or conflicts arise. Any non-audit work, other than interim reviews, requires specific approval of the Audit Committee in each case. Details of the amounts paid to the Auditors during the year for audit and other services are set out in Note 5 to the Financial Statements, on page 31.

Management Engagement Committee

The Management Engagement Committee comprises the independent Directors and is chaired by Mr J D Carr. It will annually review the management contract with Aberdeen Asset Managers Limited, details of which are shown in the Directors' Report on page 18. The Committee met twice during the year to consider the management contract.

Nomination Committee

The Nomination Committee comprises the full Board and is chaired by Mr J D Carr. The Committee, during the year, makes recommendations to the Board on the following matters:

- the identification and nomination of candidates to fill Board vacancies as and when they arise for the approval of the Board;
- succession planning;
- the evaluation of the performance of the Board and its Committees;
- the re-appointment of any non-executive Director at the conclusion of their specified term of office;
- the re-election by Shareholders of any Director under the retirement by rotation provisions in the Company's Articles of Association;
- the continuation in office of any Director at any time; and
- the appointment of any Director to another office, such as Chairman of the Audit Committee, other than to the position of Chairman.

The Committee met twice during the year and, at its meeting in February 2006, recommended to the Board the nomination for re-election of Mr B O J May and Mr W R Nixon, whose biographies appear on page 3 of this Report, for the following reasons:

- Mr May has, inter alia, detailed knowledge of, and significant experience in, the management of smaller companies; and
- Mr Nixon has, inter alia, considerable knowledge of, and experience in, the private equity industry.

Renumeration Committee and Directors' Remuneration

Under the UK Listing Authority Listing Rule 26.9(d), where a venture capital trust has only non-executive Directors, the Combined Code principles relating to Directors' remuneration do not apply. However, the Company does have a Remuneration Committee, chaired by Mr J D Carr and comprising the independent Directors. The Committee met twice during the year.

The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The activities of the Committee and the remuneration of each Director is detailed in the Directors' Remuneration Report on pages 19 and 20.

Directors' terms of appointment

Non-executive Directors are not appointed for specific terms as, under appointment letters between each of the Directors and the Company, each of the Directors was appointed until determined by either party on three months' notice. However, all non-executive Directors are subject to Companies Act provisions and, in accordance with the Articles of Association, stand for election at the first Annual General Meeting following their appointment and at least once every three years thereafter.

Relations with Shareholders

The Company places a great deal of importance on communication with its Shareholders. The Company has adopted a nominee code, which ensures that, where notification has been received in advance, nominee operators will be provided with copies of Shareholder communications for distribution to their customers. Investors whose shares are held on their behalf by nominees may attend general meetings and speak when invited by the Chairman. The Annual Report and Notice of Meeting is posted to Shareholders at least twenty business days before the Annual General Meeting, as required under Code Provision C2.4. The notice of the Annual General Meeting 16 to 18. Separate resolutions are proposed for each substantive issue. Annual and Interim Reports and Financial Statements are widely distributed to Shareholders and other parties who have an interest in the Company's performance. Shareholders and investors may obtain up to date information on the Company through the Manager and the Company responds to letters from Shareholders on a wide range of issues. All Shareholders have direct access to the Company via the shareholder information service run by Aberdeen Asset Management and have the opportunity to put questions at the Company's Annual General Meeting. The results of proxy voting are relayed to Shareholders at the Annual General Meeting, after each resolution has been dealt with on a show of hands.

Accountability and audit

The Directors' Statement of Responsibilities in Relation to the Financial Statements is on page 25 and the Statement of Going Concern is included in the Directors' Report on page 18. The Independent Auditors' Report is on page 26. It should be noted that the Auditors, CLB Littlejohn Frazer, rotate the partner responsible for the Company's audit every five years.

Internal control

The Board of Directors of Talisman First Venture Capital Trust PLC has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Directors confirm that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, which has been in place for the full year under review and up to the date of approval of the Annual Report and Financial Statements. This process is regularly reviewed by the Board and accords with the guidance for directors on internal control "Internal Control: Guidance for Directors on the Combined Code" ("the Turnbull Guidance"). The Board has reviewed the effectiveness of the system of internal control and, in particular, it has reviewed the process for identifying and evaluating the significant risks affecting the Company and the policies and procedures by which these risks are managed. The Directors have delegated the investment management of the Company to Aberdeen Asset Managers Limited, a subsidiary of Aberdeen Asset Management PLC, and this embraces implementation of the system of internal control, including financial, operational and compliance controls and risk management. Internal control systems are monitored and supported by an internal audit function, which undertakes periodic examination of business processes, including compliance with the terms of the management agreement, and ensures that recommendations to improve controls are implemented.

Risks are identified through a risk management framework by each function within the Manager's activities. Risk is considered in the context of the Turnbull Guidance and includes financial, regulatory, market, operational and reputational risk. This helps the internal audit risk model identify those functions for review. Any errors or weaknesses identified are reported to the Company and timetables are agreed for implementing improvements to systems. The implementation of any remedial action required is monitored and feedback provided to the Board.

The key components designed to provide effective internal control for the year under review and up to the date of this report are:

- the Manager prepares forecasts and management accounts which allow the Board to assess the Company's activities and review its investment performance;
- the Board and Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board. The Manager's evaluation procedure and financial analysis of the companies concerned include detailed appraisal and due diligence;
- as a matter of course, the compliance department of Aberdeen Asset Management PLC continually reviews the Manager's operations;
- written agreements are in place which specifically define the roles and responsibilities of the Manager and other third party service providers; and
- the Board carries out an annual assessment of internal controls by considering reports from the Manager, including its internal audit and compliance functions, and taking account of events since the relevant period end.

In addition, the Manager ensures that clearly documented contractual arrangements exist in respect of any activities that have been delegated to external professional organisations. The Internal Audit Committee of Aberdeen Asset Management PLC reports six monthly to the Audit Committee of the Company and has direct access to the Directors at any time. The Board has reviewed the effectiveness of the system of internal control, and, in particular, it has reviewed the process for identifying and evaluating the significant risks affecting the Company and the policies and procedures by which these risks are managed. The Company's Audit Committee agenda includes an item for the consideration of risk and control and reports thereon are received from the Manager.

The internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business goals and, by their nature, can provide reasonable but not absolute assurance against material misstatement of loss.

Exercise of voting powers

The Company has approved a voting policy which, in summary, is based on the governance recommendations of the Combined Code with the intention of voting in accordance with best practice whilst maintaining a primary focus on financial returns. The Directors believe that the exercise of voting rights lies at the heart of regulation and promotion of corporate governance and, in respect of the Company's investments, the Board has given discretionary voting powers to the Manager. The Manager votes against resolutions that it considers might damage Shareholders' rights or economic interests and gives due weight to what it considers to be socially responsible investment when making investment decisions. However, the overriding objective is to produce good investment returns for Shareholders.

Statement of Directors' Responsibilities in Relation to the Financial Statements

Company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the 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; and
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the Financial Statements.

The Directors are responsible for ensuring that proper accounting records are maintained, which enable them to ensure that the Financial Statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of Talisman First Venture Capital Trust PLC

We have audited the Company's Financial Statements for the year ended 31 March 2006, which comprise the Income Statement, Reconciliation of Movements in Shareholders' Funds, Balance Sheet, Cash Flow Statement and the related Notes 1 to 20. These Financial Statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

The 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 auditor's report and for no other purpose. To the fullest extent permitted by the 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' are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice), as set out in the Statement of Director's Responsibilities.

Our responsibility is to audit the Financial Statements, and the part of the Directors' Remuneration Report to be audited, in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether 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. We also report to you if, in our opinion, the Director's 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 of the Financial Services Authority 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 nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risk and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We have read the information contained in the Directors' Report and consider this to be consistent with the Financial Statements.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited Financial Statements. This other information comprises the Corporate Summary, Your Board, Financial History, Chairman's Statement, Investment Manager's Report, Summary of Portfolio Performance, Disposals, Investment Portfolio Summary, Ten Largest Investments, the unaudited part of the Directors' Remuneration Report, Venture Capital Trusts, Tax Position of Individual Investors and Corporate Information. 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 the International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company at 31 March 2006 and of the revenue return, capital return and the total return of the Company for the year then ended; and
- the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

In our opinion, the information given in the Directors' Report is consistent with the Financial Statements.

CLB Littlejohn Frazer
Chartered Accountants & Registered Auditors
1 Park Place
Canary Wharf
London E14 4HJ
24 July 2006

Income Statement

For the year ended 31 March 2006

		Year ended 31 March 2006			Year ended 31 March 2005 (restated)		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments							
– realised	10	–	(120)	(120)	–	(247)	(247)
– unrealised	10	–	541	541	–	183	183
Income	2	28	–	28	17	–	17
Investment management fees	3	(114)	–	(114)	(134)	–	(134)
Performance fees	4	–	(61)	(61)	–	–	–
Other expenses	5	(33)	–	(33)	(40)	–	(40)
Net (loss)/return on ordinary activities before taxation		(119)	360	241	(157)	(64)	(221)
Tax on ordinary activities	7	–	–	–	–	–	–
Return/(loss) attributable to equity Shareholders		**(119)**	**360**	**241**	**(157)**	**(64)**	**(221)**
Return per Ordinary share (pence)	9	**(0.4p)**	**1.3p**	**0.9p**	**(0.6p)**	**(0.2p)**	**(0.8p)**

The total column of this statement is the Profit and Loss Account of the Company.
A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses are recognised in the Income Statement.

Reconciliation of Movements in Shareholders' Funds

For the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Year ended 31 March 2005 (restated) £'000
Opening Shareholders' funds	20	2,405	2,626
Return/(loss) attributable to equity Shareholders		241	(221)
Closing Shareholders' funds		**2,646**	**2,405**

The accompanying Notes are an integral part of the Financial Statements.

Balance Sheet

As at 31 March 2006

		31 March 2006		31 March 2005 (restated)	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Investments	10		2,246		2,156
Current assets					
Debtors	12	181		158	
Cash and overnight deposits	17	310		130	
		491		288	
Creditors					
Amounts falling due within one year	13	91		39	
Net current assets/(liabilities)			400		249
			2,646		**2,405**
Capital and reserves					
Called up share capital	14		2,655		2,655
Share premium account	15		2,389		2,389
Capital reserve					
– realised	15		(174)		7
– unrealised	15		(1,311)		(1,852)
Revenue reserve	15		(913)		(794)
Equity Shareholders' funds			**2,646**		**2,405**
Net Asset Value per Ordinary share (pence)	16		**10.0**		**9.1**

The Financial Statements were approved by the Board of Directors on 31 May 2006 and were signed on its behalf by:

J D Carr
Director
24 July 2006

The accompanying Notes are an integral part of the Financial Statements.

Cash Flow Statement

For the year ended 31 March 2006

	Notes	Year ended 31 March 2006 £'000	Year ended 31 March 2006 £'000	Year ended 31 March 2005 £'000	Year ended 31 March 2005 £'000
Reconciliation of operating profit/(loss) to net cash outflow from operating activities					
Net revenue from ordinary activities before tax		(119)		(157)	
Performance fees		(61)		–	
(Increase)/decrease in debtors		(23)		10	
Increase in creditors		52		33	
Net cash outflow from operating activities			(151)		(114)
Taxation					
Corporation tax		–	–	–	–
Financial investment					
Purchase of investments		(2,814)		(1,881)	
Sale of investments		3,145		2,022	
Net cash inflow from financial investment			331		141
Equity dividends paid			–		–
Increase in cash for the year			**180**		**27**
Reconciliation of net cash flow to movement in net funds					
Increase in cash for the year		180		27	
Net funds at 31 March 2005		130		103	
Net funds at 31 March 2006			**310**		**130**

The accompanying Notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended 31 March 2006

1. Accounting policies

(a) Basis of preparation

The Financial Statements have been prepared in accordance with applicable accounting standards and with the Statement of recommended Practice 'Financial Statements of Investment Trust Companies' (the SORP) issued in December 2005.

Comparatives have been restated following the adoption of FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement' and Note 20 on pages 37 to 39 provides an explanation of the restatements.

(b) Income

Dividends receivable on equity shares and unit trusts are treated as revenue for the year on an ex-dividend basis. Where no ex-dividend date is available, dividends receivable on or before the year end are treated as revenue for the year. Provision is made for any dividends not expected to be received. The fixed returns on debt securities and non-equity shares are recognised on a time apportionment basis so as to reflect the effective interest rate on the debt securities and shares. Provision is made for any fixed income not expected to be received. Interest receivable from cash and short term deposits and interest payable are accrued to the end of the year.

(c) Expenses

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

- expenses which are incidental to the acquisition and disposal of an investment are charged to capital; and
- expenses are charged to realised capital reserves where a connection with the maintenance or enhancement of the value of the investments can be demonstrated. In this respect, the performance fee payable to the Manager has been allocated 100% to realised capital reserves to reflect the basis on which it is calculated.

(d) Taxation

Deferred taxation is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date, where transactions or events in an obligation to pay more tax in the future or right to pay less tax in the future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the Company's taxable profits and its results as stated in the Financial Statements which are capable of reversal in one or more subsequent periods.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or subsequently enacted at the balance sheet date.

The tax effect of different items of income/gain and expenditure/loss is allocated between capital reserves and revenue account on the same basis as the particular item to which it relates using the Company's effective rate of tax for the period.

(e) Investments

In valuing unlisted investments the Directors follow the criteria set out below. These procedures comply with the revised International Private Equity and Venture Capital Valuation Guidelines for the valuation of private equity and venture capital investments. Investments are recognised on their trade date and are valued at fair value. Fair value represents the Directors' view of the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. This does not assume that the underlying business is saleable at the reporting date or that its current shareholders have an intention to sell their holding in the near future. In particular:

- where a value is indicated by a material arm's length transaction by a third party in the shares of a company, that value will be applied;
- where a company is well established and profitable, the company may be valued by applying a suitable multiple to its earnings to establish an enterprise value; after deducting prior ranking debt, a non-marketability discount is applied and the resultant value is attributed to the remaining financial instruments;
- unlisted investments will not normally be revalued upwards for a period of at least 12 months from the date of the acquisition;
- where a company's sustained underperformance against plan indicates a diminution in the value of the investment, a provision against the previous valuation of the investment will be made; and
- in the absence of evidence of a deterioration, or strong defensible evidence of an increase, in value, the fair value is determined to be that reported at the previous balance sheet date.

All unlisted investments are valued individually by portfolio management team of Aberdeen Asset Managers private equity division and the resultant valuations are subject to detailed scrutiny and approval by the Directors of the Company.

Listed investments and AIM and OFEX quoted investments will normally be valued at their bid-market price in line with revised UK financial reporting standards.

	Year ended 31 March 2006	Year ended 31 March 2005
2. Income	**£'000**	**£'000**
Interest receivable	5	2
Dividends receivable	23	15
Total income	**28**	**17**

	Year ended 31 March 2006			Year ended 31 March 2005		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
3. Investment management fees	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investment management fees	97	–	97	114	–	114
Irrecoverable VAT	17	–	17	20	–	20
	114	**–**	**114**	**134**	**–**	**134**

Details of the fee basis are contained in the Directors' Report on page 18.

	Year ended 31 March 2006			Year ended 31 March 2005		
	Revenue	**Capital**	**Total**	**Revenue**	**Capital**	**Total**
4. Performance fees	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Performance fees	–	52	52	–	–	–
Irrecoverable VAT	–	9	9	–	–	–
	–	**61**	**61**	**–**	**–**	**–**

Details of the fee basis are contained in the Directors' Report on page 18.

	Year ended 31 March 2006	Year ended 31 March 2005
5. Other expenses	**£'000**	**£'000**
Other expenses	24	33
Fees paid to Auditors - statutory audit	8	5
Fees paid to Auditors - tax services	1	2
	33	**40**

6. Directors and employees

The total fees paid by the Company to the Directors, from the management fee, were as follows:

	2006 £	2005 £
J D Carr	6,500	6,500
S J Barclay	5,000	5,000
B O J May	5,000	5,000
W R Nixon (appointed 21 February 2006)	–	–
D A Horner (resigned 3 March 2005)	–	4,583
M Rowlinson (resigned 3 March 2005)	–	4,583
J L Scaife (resigned 24 March 2005)	–	4,583
	16,500	**30,249**

None of the Directors received any other remuneration, benefit or pension retirement benefits during the period except as disclosed in these accounts. The Company had no employees during the year.

	Year ended 31 March 2006			Year ended 31 March 2005		
	Revenue	Capital	Total	Revenue	Capital	Total
7. Tax on ordinary activities	£'000	£'000	£'000	£'000	£'000	£'000
Corporation tax	–	–	–	–	–	–

Tax losses available to be carried forward by the Company at 31 March 2006 are estimated at £841,000 (2005: £645,000). The deferred tax asset has not been recognised as it is unlikely that these expenses will be utilised.

8. Dividends

The Directors propose no dividends for the year ended 31 March 2006 (2005: nil)

9. Return per Ordinary share	**Year ended 31 March 2006**	**Year ended 31 March 2005 (restated)**
The returns per share have been based on the following figures:		
Weighted average number of Ordinary shares	26,545,500	26,545,500
Revenue return	(£119,000)	(£157,000)
Capital return	£360,000	(£64,000)
Total return	**£241,000**	**(£221,000)**

10. Investments	**Year ended 31 March 2006 £'000**	**Year ended 31 March 2005 (restated) £'000**
AIM traded investments	1,415	1,206
OFEX traded investments	306	230
Unlisted investments	293	301
Nominee funds	232	419
Valuation at 31 March 2006	**2,246**	**2,156**

	AIM traded £'000	OFEX traded £'000	Unlisted £'000	Nominee fund £'000	Total £'000
Valuation at 31 March 2005 (restated)	1,206	230	301	419	2,156
Purchases at cost	1,085	2	100	1,627	2,814
Disposals					
– proceeds	(1,171)	(100)	(80)	(1,794)	(3,145)
– realised gain/(loss)	(319)	40	51	108	(120)
Movement in net unrealised profit/(loss)	614	134	(79)	(128)	541
Valuation at 31 March 2006	**1,415**	**306**	**293**	**232**	**2,246**
Bookcost at 31 March 2006	1,954	192	1,148	263	3,557
Net unrealised profit/(loss)	(539)	114	(855)	(31)	(1,311)
Valuation at 31 March 2006	**1,415**	**306**	**293**	**232**	**2,246**

The investments made in companies traded on AIM and OFEX and in unquoted investments consist of ordinary shares, preference shares, loan stock and units in investor liquidity funds.

Nominee funds represent funds under discretionary management with Seymour Pierce Ellis Limited.

A summary of the disposal of investments during the year is detailed on page 10.

The overall profit/(loss) on investments for the year shown in the Income Statement on page 27 is analysed as follows:

	Year ended 31 March 2006 £'000	Year ended 31 March 2005 (restated) £'000
Net realised (losses)/profits on disposal	(120)	(247)
Movement in net unrealised profits/(losses)	541	183
	421	**(64)**

11. Significant interests

Details of shareholdings in those companies where the Company's holding at 31 March 2006 represents (i) more than 10% of the allotted equity share capital of any class; (ii) more than 10% of the total allotted share capital; and (iii) more than 10% of the assets of the Company itself, are given below. All of the companies named are incorporated in England and Wales.

Company	Class of shares	Number held	% of share capital
Patersons Consulting Limited	Ordinary shares (5p)	80,667	20

12. Debtors	31 March 2006 £'000	31 March 2005 £'000
Other debtors	181	157
Prepayments	–	1
	181	**158**

13. Creditors	31 March 2006 £'000	31 March 2005 £'000
Accruals	91	39
	91	**39**

14. **Called-up equity share capital**	31 March 2006 **Number**	31 March 2006 **£'000**	31 March 2005 **Number**	31 March 2005 **£'000**
At 31 March 2006 the authorised share capital comprised:				
Allotted, issued and fully paid Ordinary shares of 10p each				
Balance brought forward and carried forward	26,545,500	2,655	26,545,500	2,655
Unissued unclassified shares of 10p each	13,454,500	1,345	13,454,500	1,345
	40,000,000	**4,000**	**40,000,000**	**4,000**

15. **Reserves**	**Share premium account £'000**	**Capital reserve – realised £'000**	**Capital reserve – unrealised £'000**	**Revenue reserve £'000**
At 31 March 2004	2,389	254	(2,001)	(637)
Effect of restatement	–	–	(34)	–
At 31 March 2004 (as restated)	2,389	254	(2,035)	(637)
Net return on ordinary activities	–	(247)	183	(157)
At 31 March 2005 (as restated)	2,389	7	(1,852)	(794)
Net return on ordinary activities	–	(181)	541	(119)
At 31 March 2006	**2,389**	**(174)**	**(1,311)**	**(913)**

16. **Net Asset Value per share**	31 March 2006 **Net Asset Value per share p**	31 March 2006 **Net Asset Value attributable £'000**	31 March 2005 (restated) **Net Asset Value per share p**	31 March 2005 (restated) **Net Asset Value attributable £'000**
Ordinary shares	**10.0**	**2,646**	**9.1**	**2,405**

The number of Ordinary shares used in this calculation is set out in Note 14.

17. Analysis of changes in net funds

	Year ended 31 March 2006		
	At 31 March 2005 £'000	Cash flows £'000	At 31 March 2006 £'000
Cash and overnight deposits	**130**	**180**	**310**

	Year ended 31 March 2005		
	At 31 March 2004 £'000	Cash flows £'000	At 31 March 2005 £'000
Cash and overnight deposits	**103**	**27**	**130**

18. Related party disclosures

Some of the Directors of the Company and members of their close families have invested in the companies in which the Company has invested.

		Related party investment at cost	
	No. of connected Directors	31 March 2006 £'000	31 March 2005 £'000
Avanti Screenmedia plc	1	28	–
Bank Restaurant Group plc	1	30	15
Flightstore Group plc	1	–	100
HotGroup plc (sold during the year)	1	–	20
Interactive Digital Solutions plc	1	35	35
Patersons Consulting Limited	1	20	20
	1	20*	20*
Spectral Fusion Technologies Limited	1	56	29

A further investment of £26,000 in Spectral Fusion Technologies Limited has been made since the year end.

* Convertible loan notes

19. Derivatives and other financial instruments

The Company's financial instruments comprise securities and other investments, cash balances, overnight deposits and debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement, and debtors for accrued income. The Company may not enter into derivative transactions in the form of forward foreign currency contracts, futures and options without the written permission of the Directors. It is not the Company's policy to enter into derivatives transactions. The purpose of these financial instruments is efficient portfolio management.

The main risks the Company faces from its financial instruments are (i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency movement; (ii) interest rate risk; and (iii) liquidity risk. In line with the Company's investment objective, the portfolio comprises only UK securities and therefore has no exposure to foreign currency risk.

The Manager's policies for managing these risks are summarised below and have been applied throughout the year. The numerical disclosures below exclude short-term debtors and creditors.

(i) Market price risk

The Company's investment portfolio is exposed to market price fluctuations, which are monitored by the Manager in pursuance of the investment objective as set out on page 1. Adherence to investment guidelines and to investment and borrowing powers set out in the Management Agreement mitigates the risk of excessive exposure to any particular type of security or issuer and, in particular no purchase can be made in any one company where this would result in a holding that would exceed 10% of the Net Asset Value of the Company.

These powers and guidelines include the requirement to invest in a number of companies across a range of industrial and service sectors at varying stages of development, but with the emphasis on well established businesses. The Company complied with the stated investment guidelines and borrowing powers throughout the year ended 31 March 2006.

Further information on the investment portfolio is set out in the Investment Manager's Review on page 8, Summary of Portfolio Performance on page 9, Disposals on page 10, Investment Portfolio Summary on page 11 and Ten Largest Investments on pages 12 and 13.

(ii) Interest rate risk

		31 March 2006		
	Fixed interest	**Floating rate**	**Non-interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Sterling				
Listed	–	34	–	34
Unlisted and AIM	205	–	2,007	2,212
Cash	–	180	130	310
	205	**214**	**2,137**	**2,556**

		31 March 2005 (restated)		
	Fixed interest	**Floating rate**	**Non-interest bearing**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Sterling				
Listed	–	111	–	111
Unlisted and AIM	–	–	2,045	2,045
Cash	–	130	–	130
	–	**241**	**2,045**	**2,286**

The listed fixed interest assets have a weighted average life of 2.6 years (2005 - nil) and weighted average interest rate of 10% (2005 - nil) per annum. These assets are held to provide liquidity for the portfolio. The floating rate assets consist of cash deposits on call. These assets are earning interest at prevailing money market rates. The unlisted assets have a weighted average life of 2.9 years (2005 - nil) and a weighted average interest rate of 5.0% (2005 - nil) per annum. The non-interest bearing assets represent the equity element of the portfolio. All assets and liabilities of the Company are included in the balance sheet at fair value.

Maturity profile

The interest rate profile of the Company's financial assets at the balance sheet date was as follows:

At 31 March 2006	Within 1 year £'000	Within 1-2 years £'000	Within 2-3 years £'000	Within 3-4 years £'000	Within 4-5 years £'000	More than 5 years £'000	Total £'000
Fixed Interest							
Unlisted and AIM	–	–	127	–	–	78	205
	–	**–**	**127**	**–**	**–**	**78**	**205**

Within "more than 5 years" there is a figure of £13,000 in respect of preference shares which have no redemption date. There were no fixed interest assets held at 31 March 2005.

(iii) Liquidity risk

Due to their nature, unlisted investments may not be readily realisable and, therefore, a portfolio of listed or AIM quoted assets is held to offset the liquidity risk.

20. Basis of restatement

During the year to 31 March 2006 the Company became subject to new Financial Reporting Standards issued as part of the programme to converge UK Generally Accepted Accounting Practice (UK GAAP) with International Accounting Standards. As a consequence of this, the results for the year ended 31 March 2005 have been restated to reflect the changes of accounting practice in relation to the following:

- investments are measured at fair value and recognised at trade date; and
- for listed and AIM quoted investments, fair value is deemed to be bid market prices sourced from The London Stock Exchange. Unlisted investments are valued by the Directors at fair value, in line with the guidelines of the International Private Equity and Venture Capital Valuation Guidelines which superseded the British Venture Capital Association Valuation Guidelines for reporting periods beginning on or after 1 January 2005.

The impact of these changes are shown as follows:

Reconciliation of Balance Sheet at 31 March 2004	As previously reported 31 March 2004 £'000	Effect of change in policy £'000	As restated 31 March 2004 £'000
Fixed assets			
Investments	2,395	(34)	2,361
Current assets			
Debtors	168	–	168
Cash and overnight deposits	103	–	103
	271	–	271
Creditors			
Amounts falling due within one year	6	–	6
Net current assets	265	–	265
Net assets	**2,660**	**(34)**	**2,626**
Capital and reserves			
Called up share capital	2,655	–	2,655
Share premium account	2,389	–	2,389
Capital reserve - realised	254	–	254
Capital reserve - unrealised	(2,001)	(34)	(2,035)
Profit and loss account	(637)	–	(637)
Equity Shareholders' funds	**2,660**	**(34)**	**2,626**
Net Asset Value per Ordinary share (pence)	**10.0**		**9.9**

Reconciliation of Balance Sheet at 31 March 2005	As previously reported 31 March 2005 £'000	Effect of change in policy £'000	As restated 31 March 2005 £'000
Fixed assets			
Investments	2,273	(117)	2,156
Current assets			
Debtors	158	–	158
Cash and overnight deposits	130	–	130
	288	–	288
Creditors			
Amounts falling due within one year	39	–	39
Net current assets	249	–	249
Net assets	**2,522**	**(117)**	**2,405**
Capital and reserves			
Called up share capital	2,655	–	2,655
Share premium account	2,389	–	2,389
Capital reserve - realised	7	–	7
Capital reserve - unrealised	(1,735)	(117)	(1,852)
Profit and loss account	(794)	–	(794)
Equity Shareholders' funds	**2,522**	**(117)**	**2,405**
Net Asset Value per Ordinary share (pence)	**9.5**		**9.1**

Reconciliation of the Income Statement	Year ended 31 March 2005 £'000
Total transfer to reserves per previously reported Statement of Total Return	(138)
Change from mid to bid basis at 31 March 2004	34
Change from mid to bid basis at 31 March 2005	(117)
Return on ordinary activities after tax per Income Statement	**(221)**

Venture Capital Trusts

Venture Capital Trusts (VCTs) are companies broadly similar to investment trusts and need to have been approved by HMRC. The conditions for approval are:

- a VCT's income must be derived wholly or mainly from shares or securities;
- a VCT must retain not more than 15% of its income derived from shares or securities;
- no holding in any company can represent more than 15% by value of a VCT's investments; and
- the shares making up a VCT's ordinary issued share capital must be traded on the London Stock Exchange and listed on the Official List of the UK Listing Authority.

Within the accounting period beginning not more than three years after the initial issue of shares by a VCT, the following requirements must be met:

- at least 70% by value of a VCT's investments must be in shares, or loans of at least five years, in "qualifying holdings"; and
- at least 30% by value of a VCT's qualifying holdings must be in ordinary shares.

Qualifying holdings

Qualifying holdings are defined as holdings of shares or securities (including loans of terms of at least five years' duration) in unquoted companies (including companies whose shares are traded on the Alternative Investment Market) which exist wholly for the purpose of carrying on one or more qualifying trades wholly or mainly in the United Kingdom. The holding must consist of shares or securities which were first issued to, and have been ever since continuously held by, the VCT.

A qualifying trade is any other than:

- dealing in land, commodities, futures, shares or other financial instruments;
- dealing in goods other than in the course of an ordinary trade of wholesale or retail distribution;
- banking, insurance or other financial activities;
- leasing or receiving royalties or license fees with certain exceptions;
- providing legal or accountancy services;
- property development;
- farming or market gardening;
- holding, managing or occupying woodlands, any other forestry activities or timber production;
- operating or managing hotels or comparable establishments, or managing property used as an hotel or comparable establishment;
- operating or managing nursing homes or residential care homes, or managing property used as a nursing home or residential care home; and
- providing ancillary services to any of the above by a related party.

VCTs may count an investment of up to £1 million in total in a qualifying trading company in any one year towards the 70% qualifying trading company requirement, provided that the gross assets of the company do not exceed £15 million prior to the investment or £16 million following the investment. In the Budget of March 2006, the qualifying limits for funds raised after 6 April 2006 were lowered to £7 million before investment and £8 million following investment.

Investments in qualifying companies held by VCTs at a time when such companies become quoted on the London Stock Exchange may be treated as investments in qualifying trading companies for up to a further five years.

Tax Position of Individual Investors

This section highlights the tax reliefs available to individual investors and the methods for claiming such tax reliefs.

1. **Tax reliefs for individual investors resident in the UK**
   Investors must be individuals aged 18 or over to qualify for the tax reliefs detailed below. Tax reliefs will only be given to the extent that an individual's total investments in venture capital trusts (VCTs) in any tax year do not exceed the qualifying limit, which is currently £200,000.

   Relief from income tax
   With effect from 6 April 2006, an investor subscribing for new ordinary shares in a VCT will be entitled to claim income tax relief of up to 30 per cent on amounts subscribed up to a maximum of £200,000; relief of up to 40 per cent applied only to tax years 2004/05 and 2005/06. Relief is limited to the amount which reduces the investor's income tax liability to nil. This relief must be repaid should the shares be sold or otherwise disposed of within five years (three years from April 2000 until 5 April 2006).

   An investor who subscribes for or acquires up to the maximum number of ordinary shares in any given tax year will not be liable to UK income tax on dividends paid by a VCT, which may include capital gains realised by the VCT.

   Relief from capital gains tax
   A disposal by an investor of ordinary shares (whether acquired by subscription for new shares or subsequent acquisition) in a VCT will give rise to neither a chargeable gain nor an allowable loss for the purposes of UK capital gains tax. This relief is limited to disposals of ordinary shares acquired within the limit, currently £200,000, for any tax year.

   On the death of an investor or a spouse who has acquired VCT shares within marriage, no deferred capital gains tax or income tax will become payable by either the investor, their spouse or anyone inheriting the VCT shares.

   Shares acquired other than by subscription (i.e. existing shares)
   An investor who acquires up to the permitted maximum of £200,000 in value of ordinary shares in a VCT in any tax year will be exempt from income tax on dividends from the VCT, which may include realised capital gains from investments made by the VCT, and capital gains on disposal of the VCTs. The permitted maximum of £200,000 is the total of VCT shares subscribed for (new shares) and acquired (existing shares) in any tax year.

   A loss on disposal of shares within the permitted maximum is not an allowable loss.

2. **Obtaining tax reliefs**
   Claims for income tax relief on amounts subscribed for new ordinary shares
   A venture capital trust will give each investor a certificate which the investor may use to claim income tax relief, either immediately by obtaining an adjustment to their tax coding from HMRC or by waiting until the end of the tax year and using their tax return to claim relief.

3. **Investors who are not resident in the UK**
   Such investors should seek their own professional advice as to the consequences of making an investment in a VCT as they may be subject to tax in other jurisdictions as well as in the UK.

This is a summary only of the law concerning the tax position of individual investors in VCTs. Any potential investor in doubt as to the taxation consequences of investment in a VCT should consult a professional adviser.

Risk warnings
Past performance is not necessarily a guide to future performance. You should be aware that the value of shares and income from them may go down as well as up and that you may not get back the amount originally invested. Existing tax levels and reliefs may change and the value of reliefs depends on personal circumstances; in particular, reliefs may be lost on ceasing to be a UK resident. An investment in a VCT carries a higher risk than other forms of investment. A VCT's shares, although listed, are likely to be illiquid. Prospective investors should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objective and policy and the period for which shareholders must hold their shares in order to retain their income tax reliefs. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may, therefore, be difficult to realise and investments in such companies are substantially riskier than those in larger companies.

The tax reliefs are dependent on the VCT obtaining unconditional approval from HMRC. Reliefs will be given during a period when provisional approval only is in force, but if provisional approval is withdrawn all tax reliefs will be cancelled with retrospective effect. If unconditional approval is withdrawn, any tax reliefs are no longer available and substantial tax liabilities can be expected to be incurred by shareholders and the VCT.

Potential investors are strongly urged to seek independent professional advice when considering investment in a VCT.

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