Chairman's statement

Shareholders Vote to Liquidate the Company

On 17 April 2013, at a General Meeting, the shareholders voted to liquidate the Company over a two-year period. Your Board, with advice from Winterflood Investment Trusts, recommended the proposals as being in the best interest of the shareholders. The proposals contained three main points:

(1) To modify the investment objective and policy of the Company with a view to realising the Company's assets in an orderly manner that achieves a balance between returning cash to shareholders promptly and maximising the value of the Company's portfolio holdings.

The objective is to provide a substantial payout by the first quarter of 2014 and to finish the liquidation by the first quarter of 2015. The Investment Manager is now actively working to achieve this objective.

(2) To amend the Articles of Association such that the Company continues as an investment trust until 2015. This gives a two-year time frame for the wind-down. A continuation vote at this year's AGM will not be necessary since this was deferred to 2015 at the April General Meeting.

(3) To amend the terms of the Investment Management Agreement between the Company and the Investment Manager in order to reflect the modification of the Company's investment objective and policy to better align the interests of the shareholders and the Investment Manager during the managed wind-down period.

In the document presented to shareholders for the vote of 17 April 2013, complete details of the proposals were set out, a copy of which can be obtained from the Company Secretary.

During the liquidation process, no new investments will be made by the Investment Manager, save with the express prior permission of the Board, and then only where such investment is necessary to protect the value of a holding.

The Board will meet regularly to review progress in implementing the Company's new investment objective and policy.

Review of the Year

As at 31 March 2013, the net asset value was 328.32 pence per share versus 335.23 pence on 31 March 2012, a decline of 2.06% versus a gain of 22.45% for the Russell 2000. The Manager outperformed the benchmark Russell 2000 in 2012 and has done so long-term; however, it did not do so for 2013. The price appreciation since inception 16.75 years ago has been 236.26% for the Company versus 180.78% for the Russell 2000. In total return terms, with dividends reinvested, the return was 261.72% for the Company versus 251.98% for the Russell 2000. Over a long period, the Russell 2000 has been one of the best performing US indices. We are pleased that the Company has been successful over its lifetime.

Discount to Net Asset Value

One of the reasons for liquidating the portfolio is to eliminate the substantial discount to net asset value. While we cannot predict what the ultimate realised value will be, the Investment Manager believes there is considerable potential for capital appreciation in the portfolio.

Portfolio Comments

The Investment Manager will comment later on the major holdings but I will highlight a few points here.

AnchorFree, Inc. is the Company's most important holding and comprises more than 30% of the portfolio. The company is in an interesting technological niche and has been growing rapidly which is one reason, we believe, why Goldman Sachs invested $52 million in AnchorFree in May 2012. We took advantage of this and reduced our interest in AnchorFree, raising $5.3 million (£3.3 million) in cash, realising a $4.9 million gain. An independent valuation commissioned by the Board in March 2013 reinforced the view that the current carrying value remains appropriate; therefore, no adjustment has been made to the valuation in the current financial year. Our Manager believes that AnchorFree could be an attractive acquisition candidate, or could go public. Historically, liquidity has always been a function of "being right." There is usually a good market for a company growing as rapidly as AnchorFree.

In last year's Annual Report, we pointed out that large positions have always been part of the Company's history. In the past, the Manager has been successful in helping companies realise value for shareholders through mergers. Laserscope, of some years past, was a good example. The company was sold to American Medical Corporation at a substantial premium over our cost. During the current year, this expertise was again visible: the Investment Manager assisted in merging two sizable portfolio holdings with other companies to realise large gains. Access Plans was sold to Aon and PHC, Inc. to Acadia Healthcare, both at a significant premium to cost. As the portfolio is sold, we would expect value to be created through this sort of transaction, and would also note that the Investment Manager has experience in liquidating portfolios such as the Company's in the open market. This record gives your Board confidence that the Company's goals will be achieved.

Your Board will be monitoring these efforts and keeping you informed of the progress. We appreciate shareholder approval of the wind-down proposals and look forward to a satisfactory concluding chapter in the life of your Company.

Ernest Fenton
Chairman
14 June 2013