ShareSoc
UK Individual Shareholders Society

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Report on the Meeting for Oxford Technology VCT shareholders on May 20th

OXTAG held an open meeting for shareholders in Oxford Technology VCTs 1 & 3 following the launch of the Action Group last month in response to the loss of VCT status announced on 13th March.

Lucius Cary, director of both VCTs and the principal of the funds' management company, Oxford Technology Management, attended the first part of the meeting.

Mr Cary updated attendees (approx. 20 shareholders) on the progress of the appeal to HMRC to rescind their decision. Mr Cary has handed over the legal work to a QC, Graham Aaronson, who is said to believe from his reading of the parliamentary papers that HMRC have the discretion to reverse their earlier decision, contrary to the assertions of HMRC. Mr Cary freely admitted the fault for the breach in the 15% rule was his own and at this point no fees are currently being charged to either VCT for any work on the appeal. He confirmed that all the necessary paperwork for the appeal had been submitted to HMRC and they are awaiting a response. A key date is the 7th June. Within 3 months of the initial decision the VCTs apparently have the right to seek a judicial review of HMRC's actions. If a positive response to the appeal is not received by that date, it is possible that the QC will recommend going down this route, because he feels very strongly that the decision is wrong and the punishment for shareholders, and the companies, is out of all proportion to the technical breach. This may be a costly and time-consuming (9-15 months) process, but the alternative of a tribunal if a favourable decision is not received may be dragged out for a similar period by HMRC.

The excess holding in Scancell shares has not yet been sold. This attracted some criticism from shareholders but Mr Cary pointed out that without VCT status, tax is now payable on profits from any such share sales and he is hoping to avoid this.

The meeting moved on to questions of corporate governance, particularly whether he could convince shareholders (and HMRC) that adequate controls are now in place to ensure that a similar mistake could not be repeated. The answers were not encouraging. Mr Cary has no plans to change the way they operate just to "do it properly". One shareholder's suggestion of the two pair of eyes checking concept was met with a blank expression. He cited costs as the reason not to outsource some functions or to expand the board and seemed shocked at the suggestion that he or any other directors at fault might stand down.

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Mr Cary is planning to seek re-election as a director of both VCTs at the next AGM which is expected to be in Oxford on the 9th July when Scancell, the major investee company, will also give a presentation. The preliminary annual results of the VCTs (which run to 28 February 2014 - seven days before loss of VCT status) are expected to be released within the next 10 days. Mr Cary indicated that no adjustments would be made or presented in the accounts for the significant potential effect of the loss of VCT status, despite the fact that the change of status will have a material effect on the NAV of both the funds.

More than one shareholder repeated the point that whilst they were happy for Mr Cary to continue as the manager in relation to his investment activities, and were appreciative that he had openly answered questions, he quite clearly was not on top of the requirements for acceptable internal control procedures and urgent remedial action is necessary.

The meeting then broke for lunch and Mr Cary left at that point as it had been suggested by the organisers that some people attending might want to say things out of his presence (although his brother Anthony who is also a shareholder remained). Subsequent discussions centred on the constitution of both boards. There was general consensus that there needs to be wholesale change and that at least one new director is required on each board without delay in order to establish adequate corporate governance and to assist with the HMRC appeal. That person should be truly independent (not a friend of Mr Cary) and within a reasonable period both chairman (who are compromised by recent failings) should also stand down and be replaced. One investor suggested an independent search firm be used to identify suitable candidates.

It was agreed that OXTAG would write to Mr Cary and more formally to the boards expressing individual shareholder concerns and recommendations.

OXTAG will provide a further update once the annual results and AGM papers have been publicised.

To date responses have been received from over 150 shareholders (above a 16% response rate) of shareholders on the registers of both companies, and a number had made donations. We invite supporters to make a donation to ShareSoc so to assist with the costs of this campaign which can be made on this web page: http://www.sharesoc.org/donations.html . We will circulate this note to all the supporters and other news as it arises.

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