

British Smaller Companies VCT plc

Annual Report for the year ended
31 March 2007



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British Smaller Companies VCT plc

Advised by YFM Private Equity Limited, British Smaller Companies VCT plc provides venture capital funding of up to £1m to qualifying companies.

The investment policy of the Company is to create a portfolio that blends a mix of businesses operating in traditional industries to those that offer opportunities in the development and application of innovation.

Financial Highlights

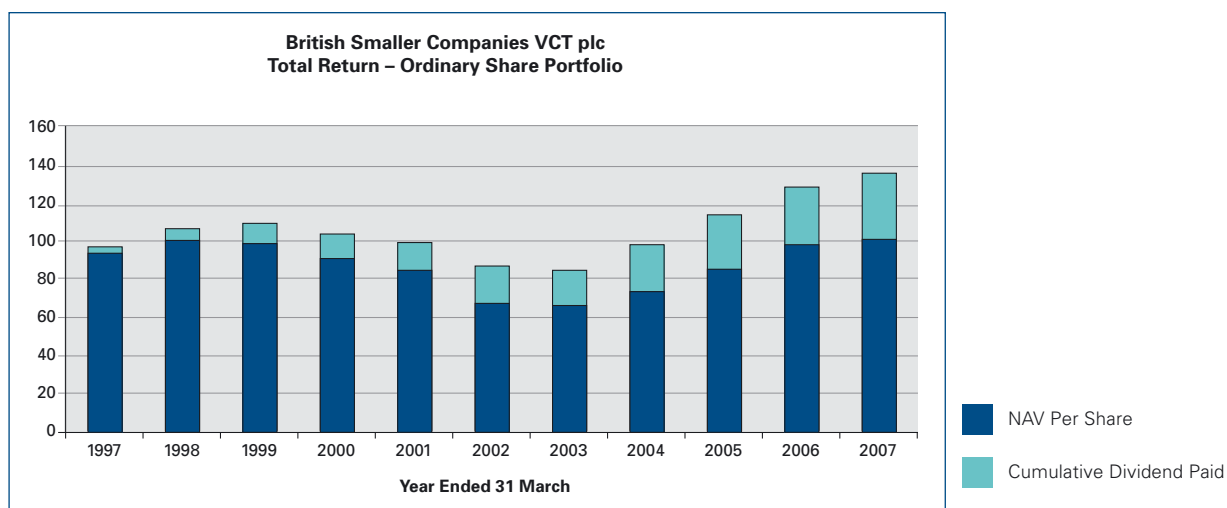
Ordinary Shares

	2007	2006
Profit before taxation	£1,225,000	£2,180,000
Dividend per Ordinary share paid in the year	4.5p	3.7p
Total cumulative dividends paid per Ordinary share	35.0p	30.5p
Net asset value per Ordinary share	101.3p	97.5p
Total return per Ordinary share	136.3p	128.0p
Proposed final dividend per Ordinary share	3.0p	3.0p

C Shares

	2007	2006
Profit before taxation	£113,000	£103,000
Dividend per C share paid in the year	0.5p	–
Total cumulative dividends paid per C share	0.5p	–
Net asset value per C share	110.8p	102.2p
Total return per C share	111.3p	102.2p
Proposed final dividend per C share	–	0.5p

The chart below shows how the total return of your Company, calculated by reference to the net asset value per Ordinary share plus cumulative dividends paid per Ordinary share, has developed over the years since inception.



Financial Calendar

- | | | | |
|---------------------|--------------|--------------------------|---------------|
| • Results Announced | 12 June 2007 | • Record Date | 22 June 2007 |
| • Ex-dividend Date | 20 June 2007 | • Annual General Meeting | 1 August 2007 |

For the fourth successive year, I am pleased to be able to report further growth in the net asset value per share of your Company. For the year to 31 March 2007, the total return of the Ordinary shares, which takes into account both this net asset value and cumulative dividend distributions, has increased by 8.3 pence per share to 136.3 pence per share, an increase of 6.5%; with the five year increase amounting to 57.4%. There has also been a pleasing increase in the total return of the C shares of 9.1 pence per share.

This year saw a continuation of the successful realisations delivered in previous years that has not only delivered a significant part of the growth in the year, but has enabled your board to continue its progressive dividend policy resulting in our recommendation to pay a final dividend of 3 pence per Ordinary share.

Investment Portfolio

These realisations totalled £2.21 million (£1.96 million in respect of the Ordinary shares and £0.25 million in respect of the C shares). The most significant realisation was of the unquoted investment in Tekton Limited (previously known as Intuita Limited). This company was sold to a vehicle backed by the private equity investor Inflexion. Your Company's investment of £0.4 million was realised for £0.9 million having held the investment for less than thirteen months. The opportunity was taken to invest £0.2 million of these proceeds in the enlarged group alongside the management.

The opportunity was also taken to realise some of the AiM portfolio with a total of £0.3 million realised in the year.

A total of £1.4 million was invested into 3 businesses in the year; £1.1 million from the Ordinary share pool and £0.3 million from the C share pool. Two of these investments were in companies at the time of their successful admission to AiM, both of which have traded at a premium to their admission price. The other was in unquoted company Cater Plus Services Limited, an established business based in Watford that provides catering services to the care home sector. Further information about these new investments can be found in the Investment Adviser's Review. This contains a summary of all businesses in the current portfolio and a note of their website addresses to enable shareholders to get further information if they wish to do so.

Financial Results and Dividend

The net asset value of the Ordinary shares at 31 March 2007 was 101.3 pence per share, and 110.8 pence per share for the C shares. Taking account of the dividends paid to date on the Ordinary shares, the total return for Ordinary shareholders since inception is 136.3 pence per share and the C shareholders 111.3 pence per share.

The Ordinary shares recorded a pre-tax profit of £1.23 million after taking account of unrealised valuation gains of £1.04 million. The C share pool also recorded pre-tax profits, delivering £0.1 million for the year.

The performance of both the Ordinary and C shares has been pleasing with increases in valuation and profitable performances delivered in both pools. Your board announced its intention to merge the two pools on the closing of this year's fundraising offers. As a consequence the C shares were converted to Ordinary shares on 9 May 2007 with the issue of 1.1247 Ordinary shares for every C share held.

An interim dividend of 1.5 pence per share was declared on the Ordinary shares and paid in November 2006. No interim dividend was paid on the C shares. Your board is now proposing a final dividend of 3.0 pence per share on the Ordinary shares. If approved, these dividends will be paid on 8 August 2007 to shareholders on the register at 22 June 2007. The final dividend has not been recognised in the accounts under IFRS as the contractual obligation did not exist at the balance sheet date.

Shareholders and Fundraising

Shareholders will be aware that, on 8 December 2006, your board published proposals offering investors the opportunity to subscribe for up to 15 million new Ordinary shares in the Company at an offer price of 102.5 pence per share. These proposals were by way of two offers closing on 5 April 2007 and 30 April 2007 respectively. Both Ordinary and C shareholders, were given priority to apply for shares in the first twelve weeks of the Offers. I am pleased to report that the Offers raised a total of £9.7 million before expenses. Your board regards this as a very creditable result and your Company has begun to take advantage of the opportunities that are available as a result of the additional investment capacity. It is anticipated that this increase in the size of your Company will deliver the reduction in the Total Expense Ratio that was envisaged in the fundraising documents.

The Company continues to operate a share buy back policy to enable shareholders to obtain some liquidity in an otherwise illiquid market where there is a need to dispose of their stock. This policy is kept under review to ensure that any decisions taken are in the best interests of shareholders as a whole. In accordance with this policy, the Company purchased for cancellation a total of 1,039,560 shares during the year, at an average price of 88.68 pence per share. The existing buy back authority which currently expires on 31 January 2008 is proposed to be extended until the conclusion of the Company's next AGM or on the expiry of 15 months following the passing of the resolution, whichever is the earlier. A resolution to this effect will be proposed at the Company's AGM on 1 August 2007.

Outlook

Your Company has achieved further profitable realisations and has begun to increase the rate of new investment that is developing a portfolio containing maturing and growing investments with the emphasis remaining on unquoted investments.

There remains a focus on continuing actively to support the investments in the portfolio maximising and realising value wherever possible. The current active market has enabled a

number of new investments to be made. In recent years there has been a much higher level of investment in the younger, developing businesses. As these businesses are continuing to grow, your board, through its investment adviser, believes it is well placed to continue to take advantage of this growing source of opportunities.

The changes relating to VCTs announced in the Budget, particularly the reduction in the number of employees to 50 being part of the test for a qualifying company, will have some impact on the industry but, with your board and its Investment Adviser already focusing primarily on this market, the changes are expected to have less of an impact on your Company than some others.



Sir Andrew Hugh Smith
Chairman
26 June 2007

Investment Adviser's Review

Portfolio Valuation and Realisations at 31 March 2007

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost	Proceeds Realised to Date*	Investment at Valuation	Realised and Unrealised to Date
				£000	£000	£000	£000
Current Investments:							
GO Outdoors Ltd	May-98	Sheffield	Consumer Products	555	460	1,912	2,372
Sheet Piling (UK) Ltd	Jun-00	Preston	Construction	500	410	1,389	1,799
Connaught plc	Nov-98	Sidmouth	Consumer Products	234	328	1,187	1,515
Cozart plc	May-01	Abingdon	Healthcare	500	183	1,324	1,507
Cater Plus Services Ltd	Feb-07	Watford	Support Services	1,000	–	1,000	1,000
Straight plc	Feb-04	Leeds	Industrial	341	64	662	726
Oasis Healthcare plc	Jul-00	Norwich	Healthcare	421	40	637	677
Tikit plc	Jun-01	London	Software	225	–	647	647
Mattioli Woods plc	Nov-05	Leicester	Support Services	325	–	646	646
The JDA Group Ltd	Sep-00	Leeds	Support Services	300	293	300	593
Images at Work Ltd	May-99	Salisbury	Support Services	615	320	260	580
Cardpoint plc	Jun-02	Lytham St Annes	Consumer Products	320	311	232	543
RMF Engineering Ltd	Feb-97	Dinnington	Industrial	300	252	84	336
Primal Pictures Ltd	May-01	London	Healthcare	500	–	323	323
Brulines (Holdings) plc	Oct-06	Stockton-on-Tees	Software	162	–	216	216
Denison Mayes Group Ltd	Aug-98	Leeds	Industrial	700	215	–	215
Belgravium Technologies plc	Oct-05	Bradford	Software	200	–	207	207
Hexagon Human Capital plc	Feb-07	London	Support Services	200	–	204	204
Freshroast Coffee Co. Ltd	Jul-96	Elland	Consumer Products	158	166	34	200
Hallco 1389 and 1390 Ltd	Dec-06	Manchester	Software	200	–	200	200
Cambridge Cognition Ltd	May-02	Cambridge	Software	325	–	130	130
Landround plc	Aug-99	Chester	Consumer Products	283	–	33	33
SBS Group plc	Mar-98	London	Support Services	100	–	–	–
				8,464	3,042	11,627	14,669
Realisations since March 2002				6,908	7,574	–	7,574
Realisations prior to March 2002				6,394	3,246	–	3,246
Total realised and unrealised to date				21,766	13,862	11,627	25,489

*Proceeds include premium and profits on loan repayments and preference redemptions

Investment Adviser's Review

Investment Portfolio

This section describes the business of the active companies in the portfolio. The website addresses of the companies are included to enable Shareholders to obtain more details of the investee companies should they wish to do so. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment set out below.



GO Outdoors Limited

Sheffield
www.gooutdoors.co.uk

Cost	£154,702	Year ended 29 January	2006	2005
Valuation	£1,912,208		£million	£million
Dates of investment	May 1998 and March 2002	Sales	14.37	11.14
Equity held	22.96%	Profit before tax	0.76	0.46
Valuation basis	Earnings multiple	Retained profits	1.26	0.83
		Net assets	5.61	4.70

GO Outdoors is a retailer of outdoor clothing, equipment and travel goods. The original investment of £500,000 in May 1998 supported the buy out from its previous owner. The second investment in March 2002 was made in support of the company's first acquisition. Following the successful opening of its store in Coventry and the acquisition of an Oxford based store, the company has continued its expansion with further store openings in Wigan and Loughborough. With eight stores in total, the company is planning further expansion in the coming months with other stores opening around the UK.



Sheet Piling (UK) Limited

Preston
www.sheetpilinguk.com

Cost	£110,000	Year ended 30 May	2005	2004
Valuation	£1,388,857		£million	£million
Date of investment	June 2000	Sales	10.04	9.37
Equity held	36.00%	Profit before tax	0.67	0.32
Valuation basis	Earnings multiple	Retained profits	1.02	0.74
		Net assets	1.38	1.11

From its headquarters in Preston, Sheet Piling is one of the UK's leading driven steel piling contractors and carries out contracts throughout the UK for a variety of sectors using its 'state of the art' equipment. The original investment supported the management buy-out from Allen plc and since then the company has more than doubled its turnover. The diversification into supplying polymer piles for use in situations where the longevity of steel piles is insufficient, such as marine environments, has increased profitability further.



Connaught plc

Sidmouth
www.connaught.plc.uk

Cost	£112,750	Year ended 31 August	2006	2005
Valuation	£1,187,232		£million	£million
Dates of investment	November 1998, July 1991 and January 2001, June, September and November 2005, March, October, November and December 2006 and January 2007.	Sales	299.75	239.58
Equity held	0.08%	Profit before tax	12.97	8.23
Valuation basis	Quoted bid price	Retained profits	14.08	4.39
		Net assets	41.12	30.95

Connaught operates as a facilities management and integrated property services group, engaged in building maintenance, light refurbishment, commercial fitting-out and electrical work. The company continues to perform well and the share price has followed suit, helped by exceptional visibility of earnings from long-term contracts. Connaught's share listing was transferred to the main market towards the end of the calendar year 2006, although the investment remains VCT qualifying for a period up to five years from that transfer.



Cozart plc

Abingdon
www.cozart.co.uk

Cost	£450,630	Year ended 31 May	2006	2005
Valuation	£1,324,442		£million	£million
Date of investment	May 2001	Sales	11.1	4.74
Equity held	3.64%	Profit (loss) before tax	0.3	(0.45)
Valuation basis	Quoted bid price	Retained profits (losses)	1.2	(0.50)
		Net assets	9.1	6.1

Cozart is a medical diagnostics company specialising in the development and supply of testing devices for drugs of abuse. The portable Cozart RapiScan™ is suitable for on-site testing of motorists for evidence of use of drugs in an efficient, timely and accurate manner. The RapiScan™ product is currently used by a number of UK police forces for testing suspects charged with acquisitive crimes. The company has successfully completed a number of acquisitions in Europe expanding its geographical distribution. Cozart, in collaboration with Phillips, has launched its next generation of products and has recently announced its first contract win in Kuwait. Recent results have seen underlying business growth continuing at 100% per annum.



Cater Plus Services Limited

Watford
www.caterplus.co.uk

Cost	£1,000,000	There are currently no audited financial statements available for Cater Plus Services Limited.
Valuation	£1,000,000	
Date of investment	February 2007	
Equity held	26.67%	
Valuation basis	Price of recent investment	

Your Company invested to support the management buy-in/management buy-out of this specialist supplier of catering services to the residential and care home sector in February 2007. The company operates across the UK supplying both catering services and undertaking purchasing contracts on behalf of residential and care homes.



Straight plc

Leeds
www.straight.co.uk

Cost	£301,236	Year ended 31 December	2005	2004
Valuation	£661,819		£million	£million
Dates of investment	February 2004, January, March and November 2005 and May 2006	Sales	24.34	12.81
Equity held	2.54%	Profit before tax	1.51	0.71
Valuation basis	Quoted bid price	Retained profits	2.23	1.49
		Net assets	8.91	2.72

Straight supplies predominantly plastic container solutions manufactured from recycled materials. The company's products are utilised for the collection, storage or transportation of source separated waste. In addition, it supplies end users with a range of environmentally friendly home and garden products, including compost bins and water butts. The company trades mainly on a contractual basis with waste management companies, local authorities, community sector organisations and private sector businesses.

Investment Adviser's Review



Oasis Healthcare plc

Norwich
www.oasis-healthcare.com

Cost	£391,664	Year ended 31 March	2006	2005
Valuation	£637,008		£million	£million
Dates of investment	July 2000, July 2001 and January 2007	Sales	82.49	74.87
Equity held	0.16%	Loss before tax	0.37	2.89
Valuation basis	Quoted bid price	Retained losses	5.48	5.41
		Net assets	8.91	8.98

Oasis Healthcare owns and operates dental practices providing both NHS and private treatment. The company currently operates from a national estate of over 120 dental practices. The buy and build phase of the company's development has now been successfully completed. With new NHS contract wins the business is continuing to deliver further operating efficiencies which is reflected in operating profit improvement.



Tikit Group plc

London
www.tikit.com

Cost	£225,683	Year ended 31 December	2006	2005
Valuation	£646,642		£million	£million
Dates of investment	June 2001, March and November 2006 and January 2007	Sales	23.52	20.16
Equity held	1.56%	Profit before tax	2.13	0.64
Valuation basis	Quoted bid price	Retained profits	2.25	1.52
		Net assets	6.20	5.16

Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company also provides a range of document and knowledge management tools to a majority of the top 50 UK legal practices. The benefits of scale from recent acquisitions have accelerated with annualised turnover now in excess of £20 million which has been reflected in strong profit growth.



Mattioli Woods plc

Leicester
www.mattioli-woods.com

Cost	£238,014 Ordinary share fund £87,624 C share fund	Year ended 31 May	2006	2005
Valuation	£472,365 Ordinary share fund £173,496 C share fund		£million	£million
Dates of investment	November 2005, February, March and October 2006	Sales	7.17	6.44
Equity held	1.43%	Profit before tax	2.18	2.72
Valuation basis	Quoted bid price	Retained profits	2.11	2.68
		Net assets	9.68	2.73

Mattioli Woods provides pensions consultancy and administration services primarily to owner-managers, senior executives and professional people. The Group's key activities include complex pensions consultancy, the provision of Self-Invested Personal Pensions ("SIPP") and Small Self-Administered Pension Schemes ("SSAS") and advice on related business affairs. Its focus is at the higher end of the market where clients require bespoke service and specialist advice.



The JDA Group Limited

Leeds
www.jda.co.uk

Cost	£34,753	Year ended 31 December	2005	2004
Valuation	£300,000		£million	£million
Dates of investment	September 2000 and October 2006	Sales	16.00	19.39
Equity held	14.98%	Profit before tax	0.37	0.82
Valuation basis	Third party offer, supported by earnings multiple.	Retained profits	1.51	1.46
		Net assets	1.79	1.73

JDA remains a top 20 agency for multi-disciplinary expertise and continues to provide successful marketing solutions for clients such as Royal Mint, British Telecom, HBOS, Tui, Lakeland and Cattles. The company has an active division specialising in providing web related services which included an (SMS) text-based competition highlighting the issue of DVD piracy on behalf of the Industry Trust for IP Awareness. Subsequent to the year end, the investment has been realised for a mixture of cash and deferred consideration.



Images at Work Limited

Salisbury
www.iaw.co.uk

Cost	£295,000	Year ended 30 September	2005	2004
Valuation	£259,500		£million	£million
Date of investment	March 1999	Sales	4.72	4.76
Equity held	33.33%	Profit before tax	0.10	0.05
Valuation basis	Third party offer, discounted and supported by earnings multiple.	Retained profits	0.04	–
		Net assets	0.71	0.69

Images at Work supplies and manages corporate contracts to a portfolio of large and small clients throughout the UK, including a number of blue-chip companies. Through its specialist subsidiary ESM it provides a clothing management programme to several of the national and regional emergency services, police and fire brigades. Its proprietorial IT system allows the clothing requirements of every officer to be recorded, analysed and compared to budget.



Cardpoint plc

Lytham St Annes
www.cashcardservices.co.uk

Cost	£119,915	Year ended 30 September	2006	2005
Valuation	£231,909		£million	£million
Dates of investment	June 2002, April 2005, June and September 2006	Sales	97.87	61.05
Equity held	0.22%	Loss before tax	24.91	11.46
Valuation basis	Quoted bid price	Retained losses	40.84	16.63
		Net assets	53.27	77.49

Cardpoint is one of the UK's leading independent providers of ATMs (cashpoints) and has grown rapidly by acquisition and organically. Cardpoint reported that it had successfully integrated the acquisition of the Moneybox business, albeit at a considerably greater financial cost than had been anticipated. Following the consequent management changes in 2006 the recent performance of the company has been more in line with expectations.



RMF Engineering Limited

Dinnington
www.rmfeengineering.co.uk

Cost	£90,000	Year ended 31 December	2005	2004
Valuation	£84,013		£million	£million
Date of investment	February 1997	Sales	3.31	4.38
Equity held	25.00%	Profit (loss) before tax	0.22	(0.04)
Valuation basis	Net asset value	Retained profits	0.22	0.07
		Net assets	0.74	0.57

RMF is a manufacturer of corrosion resistant chemical plants, specialising in providing tailor made solutions to problems in the process industry. The company has successfully reduced its reliance on low margin high risk new plant manufacture focussing on the profitable business channel of repair, maintenance and modification to existing plant in Europe. RMF has responded well to the recent business challenges which has seen it return to profitability.



Primal Pictures Limited

London
www.primalpictures.com

Cost	£500,000	Year ended 31 December	2005	2004
Valuation	£323,458		£million	£million
Date of investment	March 2001	Sales	1.93	2.27
Equity held	3.84%	Loss before tax	0.50	0.18
Valuation basis	Price of recent investment, reviewed for impairment	Retained losses	5.15	4.77
		Net liabilities	1.84	1.45

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons. Images derived from X-ray, magnetic resonance and other scan data have enabled the production of a completely authentic anatomical model of the human body. The company is continuing to expand its business development activities to the large and potentially lucrative allied health and student markets.



Brulines (Holdings) plc

Stockton-on-Tees
www.brulines.com

Cost	£97,416 Ordinary share fund £64,944 C share fund	Year ended 31 March	2007	2006
Valuation	£129,888 Ordinary share fund £86,592 C share fund		£million	£million
Date of investment	October 2006	Sales	16.76	11.08
Equity held	0.55%	Profit before tax	1.91	1.63
Valuation basis	Quoted bid price	Retained profits	1.99	1.00
		Net assets	11.25	2.73

Brulines is based on Teeside from where it offers a monitoring service to the owners of public houses. Their flow monitoring devices can reveal to the brewer whether or not publicans are attempting to by-pass the tenancy agreement by buying beer from unauthorised sources. Brulines' IPO in October 2006 raised a total of £19.6 million (£7 million net for the company), and valued the business at £29.5 million.



Belgravium Technologies plc

Bradford
www.belgravium.com

Cost	£146,126 Ordinary share fund £53,874 C share fund	Year ended 31 December	2006	2005
			£million	£million
Valuation	£151,345 Ordinary share fund £55,798 C share fund	Sales	10.92	5.43
Date of investment	October 2005	Profit before tax	1.38	0.90
Equity held	1.42%	Retained losses	2.27	2.63
Valuation basis	Quoted bid price	Net assets	7.77	7.41

Belgravium is a computer design and manufacturing company, specialising in innovative mobile computers for the logistics, fuel and aviation markets. Your Company invested on the acquisition of the complementary Touchstar Technologies in October 2005. Full year results to 31 December 2006 show profitability increased by over 50%.



Hexagon Human Capital plc

London
www.hexagonhc.com

Cost	£166,518 Ordinary share fund £33,482 C share fund	There are currently no audited financial statements available for Hexagon Human Capital plc.
Valuation	£169,546 Ordinary share fund £34,091 C share fund	
Date of investment	February 2007	
Equity held	0.67%	
Valuation basis	Quoted bid price	

Hexagon provides executive, non-executive and interim management resources to an expanding range of blue chip corporate customers.



Freshroast Coffee Co. Limited

Elland

Cost	£5,271	Year ended 31 December	2005	2004
Valuation	£34,030		£million	£million
Date of investment	July 1998	Retained profits	-	-
Equity held	12.97%	Net assets	0.20	0.20
Valuation basis	Net asset value			

Freshroast Coffee processes, packages and markets coffee, tea and other beverages and beverage constituents, providing an own branding service to vendors. Freshroast has repaid its loan in full that has resulted in a small residual investment.

Investment Adviser's Review

Hallco (1389) and (1390) (formerly Tekton Group) Limited

Manchester
www.tekton-group.com

Cost	£200,028
Valuation	£199,993
Date of investment	December 2006
Equity held	4.13%
Valuation basis	Price of recent investment

There are currently no audited financial statements available for Hallco 1389 and 1390 Limited.

Your Company realised the majority of its investment in Tekton Group through a secondary management buyout completing in December 2006. The opportunity was taken to invest a small proportion of the proceeds into the enlarged entity alongside the management. The company is continuing to pursue an expansion strategy which is predicated on growth by acquisition consolidating a number of fragmented suppliers within its industry sector.



Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost	£325,000
Valuation	£130,045
Date of investment	May 2002
Equity held	4.39%
Valuation basis	Price of recent investment

Year ended 31 December	2005 £million	2004 £million
Sales	1.78	1.31
Loss before tax	0.54	0.89
Retained losses	3.13	2.58
Net assets	0.58	0.55

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental conditions especially Alzheimer's, Schizophrenia and Attention Deficit Hyperactivity Disorder (ADHD). It supplies licenses and software to pharmaceutical, academic and medical customers throughout the world, having already sold its products into over 500 universities and 50 countries. The company raised £2 million to fund it through the period of application for FDA approval in the USA.



Landround plc

Chester
www.landround.com

Cost	£282,929
Valuation	£33,103
Dates of investment	August 1999, January and February 2001
Equity held	1.03%
Valuation basis	Quoted bid price

Year ended 31 January (2006: 16 month period)	2007 £million	2006 £million
Sales	9.73	14.38
Loss before tax	2.07	2.24
Retained losses	3.67	1.52
Net assets	1.12	1.66

Landround specialises in creating and serving innovative low cost, high value, travel and holiday themed promotions for hundreds of leading companies. Its travel reward programme, 'Buy and Fly' is now well established. Following a period of uncertainty as a result of a number of negative trading statements throughout the calendar year 2006, the company has undergone considerable management restructuring, and has recently announced growth in the reward programme business in three existing territories and a successful 'Buy and Fly' launch in Sweden.

Introduction

We are pleased to report a 12.4% growth in the investment valuations over the year. In particular, the year has been characterised by significant mergers and acquisition activity supported by high market liquidity. Against this background, your Company has achieved two further profitable disposals from the unquoted investment portfolio. Secure Mail Services Ltd was sold to Candover-backed Mail Acquisitions Ltd in a transaction that also saw the simultaneous acquisition of DX Services plc. This disposal generated total proceeds equivalent to £1.2 million, 3.4 times the original investment.

The holding in the specialist construction industry software business Tekton Group Ltd was sold in the third stage of its buy-and-build strategy. As part of the transaction your Company took the opportunity to re-invest some of the proceeds on the preferential terms enjoyed by the management team.

Investment Activity

In the context of this strong market we have continued to be selective in respect of new investments. As a consequence, £1.38 million has been invested in three new investments. This follows the investment strategy where the emphasis is to invest 75-80% of new investments into unquoted companies with the balance into AiM quoted companies. The average investment into the unquoted companies tends to be significantly higher than into the AiM quoted businesses; this again was reflected in the last year.

Your Company completed an investment of £1 million into Watford based Cater Plus Services Ltd, a provider of contract catering services to the nursing home and residential care sector. The investment was made in support of a recently appointed Chief Executive and the incumbent management team in order to acquire the business from the founder's estate.

The two investments into companies on their admission to AiM, Hexagon Human Capital plc and Brulines (Holdings) plc posted immediate satisfactory gains, and were showing a combined 16% uplift at the end of the year.

Hexagon Human Capital plc is one of the leading providers of senior interim management appointments in the UK and intends to use its quoted profile to pursue a buy-and-build strategy in this sector.

Brulines (Holdings) plc is based on Teesside from where it offers a monitoring service to the owners of public houses. Their flow monitoring devices can reveal to the brewer whether or not publicans are attempting to by-pass the tenancy agreement by buying beer from unauthorised sources.

The investment policy, which has been pursued for the past few years, has delivered a return of 75.9% over 3 years (95% over 5 years) which compares well with sector averages of 18.1% and 12.8% respectively (source: trustnet.co.uk). It is the intention to adhere to this strategy of backing credible management teams with ambition and vision to deliver capital growth.

Following the raising of an additional £9.2 million (net of expenses) in the recent fundraising, the Company is well resourced to increase its investment activity, and is currently experiencing a strong flow of promising enquiries which meet the criteria.

Subsequent to the year end, investments of £800,000 have been made into Harvey Jones Limited a specialist manufacturer and fitter of quality kitchen units and equipment and £600,000 into Harris Hill Limited, a company that focuses on recruitment for the charity and not-for-profit sectors.

As is explained under Portfolio Performance the opportunity to exit from Tekton Group Limited was taken in December 2006 when the company needed to raise substantial funding for its onward acquisition programme. The refinancing of Tekton by Inflexion offered the opportunity for your Company to realise an immediate profit representing 2.2 times the original investment, equivalent to an internal rate of return of 112%.

Portfolio Performance

The unquoted portfolio has delivered growth through Secure Mail Services Limited and Tekton Group Limited, both of which provided cash exits, and also through unrealised growth at GO Outdoors Limited. The quoted portfolio has also delivered a noteworthy rise, with Oasis Healthcare plc, Connaught plc, Tikit Group plc and Cozart plc individually providing strong value growth.

Unquoted Portfolio

The year under review saw two companies sold out of the unquoted portfolio; Tekton Group Limited and Secure Mail Services Limited which between them delivered £343,000 of value uplift over the year. The GO Outdoors group of destination stores has grown its market reach by opening two new stores and seen the previous year's store opening move into profitability. Several other portfolio companies have received approaches from credible trade buyers and are currently undergoing formal sales or due diligence processes. If the presently indicated exit values were to be translated into completed transactions then further value uplift could be expected.

The original investment into Tekton Group Limited of £400,000 was made in December 2005 and over the following year trade acquisitions of complementary businesses were made in Evision Limited and CIT Limited in accordance with the declared buy-and-build strategy. In October 2006 an agreement was reached to acquire Sitestream Limited, the UK's largest provider of dedicated software for the house building sector. To ensure that Tekton had access to larger funding for the increasingly ambitious acquisitions programme, a new source of venture capital was introduced in a secondary management buyout. As a result your Company received £870,000 cash return, representing 2.2 times return in one year. Additionally, your Company was able to reinvest £200,000 into the larger entity on favourable terms.

Secure Mail Services Limited was sold to Mail Acquisitions Limited in September 2006. On completion your Company received £1,112,729 for its original investment of £358,125, achieving a cash multiple (excluding income returns) of 3.1 over four years. There is also provision for a deferred consideration payment, and additional monies are held in escrow dependent on resolution of certain issues. In view of the uncertainties regarding the release of deferred and escrow considerations, value has been ascribed to only a small proportion of future payments. If these issues are resolved to your Company's advantage additional payments will become due.

AiM Portfolio

Overall, the AiM portfolio has performed well with the majority of investments showing increases in the year.

Whilst there are creditable performances from many of the constituents of the portfolio, it is particularly encouraging to see the progress made at Tikit Group plc and the recovery at Oasis Healthcare plc, which after a period of solid results and de-gearing, has benefited from acquisition rumours which has recently boosted the share price by 37%.

Subsequent to the year end, there have been two take over proposals tabled for Oasis Healthcare plc which have fuelled further share price increases.

Summary and Outlook

The British Smaller Companies VCT plc is one of the top ten performing Venture Capital Trusts (source: trustnet.co.uk) over three and five years. This performance has resulted in YFM Private Equity Limited being chosen as the UK's VCT Fund Manager of the Year by Growth Company Investor, and we are grateful to be accorded this distinction.

The strong performance has generated a total return of 136.3 pence per Ordinary share, of which 35.0 pence has been paid in the form of tax free dividends.

With a maturing portfolio, the Company is now expecting a period of realisations coupled with significant investment activity. The Company has liquidity to consider a wide range of propositions generated by intermediaries, and from introductions made from the growing portfolio of the YFM Group's network of nine regional offices.

The three exits achieved during the year generated a combined cash excess above cost of £1.3 million and investments of £1.38 million were made.

David Hall
Managing Director
YFM Private Equity Limited
26 June 2007

Initial Measurement

Financial assets are initially measured at fair value. The best estimate of fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i.e. cost).

Subsequent Measurement

The revised International Private Equity and Venture Capital Valuation Guidelines identifies six of the most widely used valuation methodologies. The Guidelines advocate that the best valuation methodologies are those that draw on external, objective market based data in order to derive a fair value.

Unquoted Investments

- **Price of recent investment.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party, but it is only considered relevant for a limited period following the date of the relevant transaction. A period of twelve months is used in practice. During this period, the value of the investment is assessed for changes or events that would imply impairment to the fair value. In addition, the valuation technique also represents certain situations where although the twelve month period has expired, an alternative valuation technique is not followed because an additional investment has been made by the Company at the same price as the previous investment and an alternative valuation technique would not result in a better estimate of fair value. The whole investment is also assessed for impairment.
- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company.
- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounting by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.
- **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

- **Industry valuation benchmarks.** Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.

Discounted cash flows and industry valuation benchmarks are only likely to be reliable as the main basis of estimating fair value in limited situations. Their main use is to support valuations derived using other methodologies and for assessing impairment.

Where an independent third party valuation exists, this will be used as the basis to derive the gross attributable enterprise value of the company. In other cases, the most suitable valuation technique, as set out above, is used to determine this value. This value is then apportioned appropriately to reflect the respective amounts accruing to each financial instrument holder in the event of a sale at that level at the reporting date.

Quoted Investments

Quoted investments are valued at market bid price. No discounts are applied.

Sir Andrew Colin Hugh Smith – Chairman (75)

Following a career at the Bar and in industry, he became a partner of Capel Cure Myers in 1970, senior partner in 1979 and left the firm in 1988 to become chairman of the London Stock Exchange. He retired from the Exchange in 1994. He is currently chairman of British Smaller Technology Companies VCT 2 plc.

Philip Simon Cammerman (65)

Has over 20 years of industrial experience in engineering and technology industries and has worked in both the USA and the UK. He has spent the last 22 years in the venture capital industry and is a director of YFM Private Equity Limited and YFM Group Limited. He has been responsible for a wide range of venture capital deals in a variety of industries including software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of British Smaller Technology Companies VCT 2 plc.

Richard Last (49)

Qualified as a chartered accountant with Coopers & Lybrand and is chief executive of Lynx plc, a computer software, systems and services group. He is chairman of Xpertise Group plc, an AiM quoted IT training group, is a non-executive director of Patsystems plc, an AiM quoted IT software company, and British Smaller Technology Companies VCT 2 plc.

Robert Martin Pettigrew (62)

Has more than 20 years experience in the development of emerging businesses. In 1968 he co-founded Generics (renamed Sagentia) which has grown rapidly to become one of the leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He also was involved in developing Generics investment activities in early stage technology ventures and was a director of the group investment company Generics Asset Management. He retired from Generics at the end of 2002 to pursue independent investment activities. He is an investor director on the board of a number of technology companies including Sphere Medical Devices, BioWisdom, Zinwave, Acal Energy, Timberpost and Digital Health Care. He is a non-executive director of British Smaller Technology Companies VCT 2 plc.

Stephen John Noar (59)

A dentist by profession, he was the founder chairman and former chief executive of Denplan Limited until its successful trade sale in 1993 following its growth from start up to a turnover in excess of £70m. He was the New Business and Dental Director of PPP Limited (prior to the company's acquisition by Guardian Royal Exchange) responsible for developing dental and other services. In 1994 he was the winner of the Financial Times Venturer of the Year award. He is a non-executive director of British Smaller Technology Companies VCT 2 plc and also Cozart plc following the investment in this company.

Secretary and Registered Office

James Ernest Peter Gervasio LL.B.
Saint Martins House
210-212 Chapeltown Road
Leeds
LS7 4HZ

Registered No: 3134749

For the Year Ended 31 March 2007

The directors present their report and audited accounts of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2007.

Principal Activity

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office and principal place of business is Saint Martins House, 210-212 Chapeltown Road, Leeds, LS7 4HZ.

The Company has its primary, and sole, listing on the London Stock Exchange.

The Company operates as a venture capital trust and has been approved by HM Revenue & Customs as an authorised venture capital trust under Chapter 3 Part 6 of the Income Tax Act 2007. It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Chapter 3 Part 6 of the Income Tax Act 2007.

Business Review

As in previous years, a review of the business's activities over the past 12 months and the outlook for future developments is included within the Chairman's Statement and Investment Adviser's Review. The Company, in common with most companies within the venture capital trust industry, does not have any employees apart from the five directors. The business and administrative duties of the Company are contracted to the Investment Adviser, YFM Private Equity Limited, with the Board retaining the key decision matters for approval. Hence the Board manages the business affairs of the Company through regular management reports from YFM Private Equity and, through this process, ensures that it has sufficient resources to carry out its functions.

Principal Risks, Risk Management and Regulatory Environment.

The Board believes that the principal risks faced by the Company are:

Investment and strategic – quality of enquiries, investments, investee company management teams and monitoring. The risk of not identifying investee under performance might lead to under performance and poor returns to shareholders.

Loss of approval as a Venture Capital Trust – the Company must comply with Chapter 3 Part 6 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment realisations. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying shareholders who have not held their shares for the designated

holding period having to repay their income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains. As such one of the key performance indicators monitored by the Company is the compliance with legislative tests. See page 19 for more detail.

Regulatory – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and the International Accounting Standards. Breach of any of these regulatory rules might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Reputational – inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.

Operational – failure of the Investment Adviser's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Financial – inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

Market Risk – lack of liquidity in both the venture capital and public markets. Investment in AiM-traded and unquoted companies, by their nature, involve a higher degree of risk than investment in companies traded on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

Liquidity Risk – The Company's investments may be difficult to realise. The fact that a share is traded on AiM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable.

The Board seeks to mitigate the internal risks by setting policies, regular review of performance, monitoring progress and compliance. The key performance indicators measure the Company's performance and its compliance with legislative tests. In the mitigation and management of these risks, the Board rigorously applies the principles detailed in the "Turnbull" guidance. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on pages 21 to 24.

Key Performance Indicators

The Company monitors a number of Key Performance Indicators as detailed below:

Total Return

The recognised measurement of financial performance in the industry is that of Total Return (expressed in pence per share) calculated by adding the total cumulative dividend paid to shareholders from the date your Company was launched to the current reporting date, inclusive of any recoverable tax credits, to the net asset value at that date.

The chart showing the Total Return of your Company is included within the financial highlights on page 3.

The evaluation of comparative success of the Company's total return is by way of reference to the net cost of investment for the founder eligible shareholder which was 80 pence per share (net of 20% basic tax relief) and by comparison to the FTSE™ All-Share Index over that same period. This is the Company's stated benchmark index and a comparison of this return is shown in the Directors' Remuneration Report.

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. Under Chapter 3 Part 6 of the Income Tax Act 2007, in addition to the requirement for a VCT's capital to be listed in the Official List on the London Stock Exchange throughout the period, there are five further tests that VCTs must meet on a continuing basis following the initial three year provisional period.

The Board can confirm that during the period all of the VCT legislative tests have been met and verified by independent specialists.

Results and Dividends

The Income Statement for the year is set out on page 30. The profit on ordinary activities after taxation for the year, amounted to £1,338,000 (2006: £2,283,000).

Following the publication of the Company's interim financial results, a 1.5p per Ordinary share interim dividend (2006:1.5p) was paid on 6 November 2006 to Shareholders on the register on 13 October 2006.

The directors recommend the payment of a final dividend of 3p per Ordinary share (2006: 3p) which will be paid on 8 August 2007 to Shareholders on the register on 22 June 2007. A resolution to this effect will be proposed at the Annual General Meeting to be held on 1 August 2007.

The net asset value per Ordinary share at 31 March 2007 was 101.3p (2006: 97.5p) and the net asset value per C share was 110.8p (2006: 102.2p). The transfer to and from reserves is given in the Statement of Changes in Shareholders' Equity on page 32.

Share Capital and Purchase of Own Shares

Ordinary shares

On 25 May 2006, the Company purchased for cancellation under existing authority granted by the Shareholders 609,560 Ordinary shares of 10p each in the market, representing 3.8% of the issued called-up share capital at that date, at a price of 87.75p per share for cash.

On 30 January 2007, the Company purchased for cancellation under existing authority granted by the Shareholders 200,000 Ordinary shares of 10p each in the market, representing 1.3% of the issued called-up share capital at that date, at a price of 90p per share for cash.

On 5 March 2007, the Company purchased for cancellation under existing authority granted by the Shareholders 90,000 Ordinary shares of 10p each in the market, representing 0.6% of the issued called-up share capital at that date, at a price of 90p per share for cash.

On 22 March 2007, the Company purchased for cancellation under existing authority granted by the Shareholders 140,000 Ordinary shares of 10p each in the market, representing 0.9% of the issued called-up share capital at that date, at a price of 90p per share for cash.

During the year the Company issued 576,764 Ordinary shares under the 2005/6 Top Up Offer that closed on 30 June 2006 raising net proceeds of £533,159.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 47 of these financial statements.

In addition to the Ordinary Business of the meeting, as part of the Special Business of the meeting, Special Resolution (1) will be proposed to renew and extend the existing directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the directors, until the date falling 15 months after the date of the passing of the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company, to issue Ordinary shares for cash without pre-emption rights applying by way of offer to existing shareholders either: by way of performance incentive payments to the Company's

Investment Adviser in connection with arrangements first entered into in 1996; or otherwise up to a maximum of 2,640,919 Ordinary shares (representing approximately 10 per cent of the Company's issued share capital as at 20 June 2007) so that the directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs.

The current authority of the Company to make market purchases of up to approximately 14.99 per cent of its issued capital expires on 30 January 2008. Special Resolution (2) seeks renewal of such authorities until the conclusion of the Company's AGM or on the expiry of 15 months following the passing of the resolution, whichever is the earlier. The price paid for shares will not be less than the nominal value nor more than the maximum amount determined by the rules of the UK Listing Authority at the time of purchase. This power will be exercised only if, in the opinion of the directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in treasury for future re-sale in appropriate market conditions.

The Companies (Acquisitions of Own Shares) (Treasury Shares) Regulations 2003 ('the Regulations') allow companies (such as the Company) to hold shares acquired by way of market purchase as treasury shares, rather than having to cancel them. Up to 10 per cent of each class of a Company's shares may be held in this way. Such shares may be subsequently cancelled or sold for cash. The Company may hold in treasury any of its shares that it purchases pursuant to the authority proposed to be granted by shareholders. This would give the Company the ability to re-issue treasury shares quickly and cost efficiently, and would provide the Company with additional flexibility in the management of its capital base.

Substantial Shareholding

The directors are not aware of any substantial shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

Trade Payables Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. Although the Company has no trade payables at the year end, the average number of payable days during the year was 19 (2006: 15).

Directors and their Interests

The directors of the Company at 31 March 2007, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 26 to 27.

Independent Auditors

During the year, the Company's auditors, PricewaterhouseCoopers LLP, resigned and the Board appointed PKF (UK) LLP as auditors to fill the casual vacancy. A resolution to re-appoint PKF (UK) LLP as auditors will be proposed at the Annual General Meeting.

VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements of venture capital trusts. PricewaterhouseCoopers LLP reviews new investment opportunities as appropriate and carries out regular reviews of the Company's investment portfolio under the instruction of the Investment Adviser to ensure legislative requirements are properly assessed.

Events After the Balance Sheet Date

On 5 April 2007 the Company issued 9,333,427 Ordinary shares at a price of 102.5 pence per share. On 30 April 2007 the company issued a further 468,813 Ordinary shares again at a price of 102.5 pence per share. In aggregate these two issues of shares raised £9,182,909 net of expenses.

On 27 April 2007 the Company realised £199,600 from the sale of part of its investment in Oasis Healthcare plc. This represented a gain of £7,833 above the valuation at 31 March 2007.

On 9 May 2007 the C shares were converted into Ordinary shares. The conversion, in accordance with the Articles of Association, was by reference to a conversion formula based on the relative net assets of the Company on 30 April 2007, being the Calculation date. The 1,258,676 C shares were converted into 1,415,585 new Ordinary shares and 4,877,795 deferred shares. The deferred shares so issued were immediately purchased by the Company for an aggregate consideration of 5p and cancelled.

On 11 May 2007 the Company invested £800,000 in Harvey Jones Limited, a fitted kitchen specialist. The investment was syndicated with the Chandos Fund LP (£2.3m) and British Smaller Technology Companies VCT 2 plc (£0.4m), funds for which YFM Private Equity Limited also acts as investment adviser.

On 1 June 2007 the Company invested £600,000 into "newco" Limited to support the management buy-in of the specialist recruitment business Harris Hill Limited, The investment was syndicated with the Chandos Fund LP (£1.6m) a fund for which YFM Private Equity Limited also acts as investment adviser.

On 5 June 2007 the Company realised its investment in JDA Group Limited. The company was sold to Millenium Group Limited. Initial proceeds for the investment totalled £289,543, representing a gain of £254,790 above cost. There is the potential for further receipts as part of a deferred consideration arrangement.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Financial Services Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and 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.

The financial statements are published at www.yfmgroup.co.uk, which is a website maintained by the Company's Investment Adviser. The work carried out by the

auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The directors confirm that so far as each director is 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 ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Corporate Governance

The Board is committed to the principle and application of sound Corporate Governance and confirms that the Company has taken appropriate steps, relevant to its size and operational complexity, to comply with, The Principles of Good Governance of the revised Combined Code published in July 2003 (the "Combined Code").

The Board has complied throughout the year, and up to the date of this report, with Section 1 of the Combined Code issued in July 2003, except for those provisions relating to the appointment of a recognised senior independent non-executive director, those relating to the establishment of an independent Remuneration or Nomination Committee, the Chairman acting as chairman of the Audit Committee, and the presumption concerning his independence (see below).

Role of the Board

A management agreement between the Company and YFM Private Equity Limited sets out the matters over which the Investment Adviser has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration, and some marketing services. All other matters are reserved for approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

The Board meets at least six times during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow directors to discharge their responsibilities.

There is an agreed procedure for directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every director has to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed. The Company indemnifies its directors and officers and has purchased insurance to cover its directors. Neither the insurance nor the indemnity provide cover if the director has acted fraudulently or dishonestly.

Board Composition

The Board consists of five non-executive directors, four of whom are regarded by the Board as independent and four of whom are regarded as independent of the Company's Investment Adviser, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although the Combined Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in this Company, and taking account of the Chairman's role within the other venture capital trust to which YFM Private Equity Limited is the Investment Adviser, are satisfied that Sir Andrew Hugh Smith continues to fulfill the criteria for independence as non-executive director. The directors have a breadth of investment, business and financial skills and relevant experience to the Company's business and provide a balance of power and authority, including recent and relevant financial experience. Brief biographical details of each director are set out on page 17.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which are given below.

There are no executive officers of the Company. Given the structure of the Board and the fact that the Company's administration is conducted by YFM Private Equity Limited, the Company has not appointed a chief executive officer or a senior independent non-executive director. In addition, the directors consider that the role of a senior independent non-executive director is taken on by all of the directors. Shareholders are therefore able to approach any director with any queries they may have.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, a director's appointment will run for a term of three years. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirement of the Combined Code, including the need to refresh the Board and its Committees. Any director who has served for a period of more than nine years will stand for annual re-election thereafter.

The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting.

The directors recommend the re-election of Sir Andrew Hugh Smith, Mr P Cammerman and Mr R Last, all of whom retire by virtue of service for more than 9 years. The Board recommends the re-election of these directors at this year's AGM because of their commitment, experience and contribution to the Company. The directors further recommend the re-election Mr S Noar who falls for re-election in the current year.

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number of Board and Audit Committee meetings attended by each director. During the year there were 7 formal Board meetings and 1 Audit Committee meeting. The directors met via telephone conference on 2 other occasions.

Director	Board meetings attended	Audit Committee meetings attended
Sir Andrew Hugh Smith	7	1
Philip Simon Cammerman	7	n/a
Richard Last	7	1
Stephen John Noar	6	1
Robert Martin Pettigrew	6	–

Training and Appraisal

On appointment, the Investment Adviser and Company Secretary provide all directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and directors. Directors are encouraged to attend industry, and other seminars covering issues and developments relevant to venture capital trusts.

The performance of the Board has been evaluated in respect of the current financial year. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively. The factors taken into account were based on the relevant provisions of the Combined Code and included attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution. Particular attention is paid to those directors who are due for reappointment. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

An independent director has similarly appraised the performance of the Chairman, taking account of the views of the directors. He considered that the Chairman's performance continues to be effective and that he continues to demonstrate a commitment to the role. The Chairman has confirmed that the performance of the directors being proposed for re-election continues to be effective and that each of them continues to show commitment to the role.

Nomination Committee and Remuneration Committee

Due to the size of the Board and the appointment and remuneration procedures currently in place, in the directors' opinion, there is no role for an Independent Remuneration or Nomination Committee. The Directors' Remuneration Report may be found on pages 26 and 27. Any proposed appointment to the Board is a matter for the whole Board.

Audit Committee

The Audit Committee consists of the directors who are considered by the Board to be independent of the Investment Adviser, being Sir Andrew Hugh Smith, R Last, S Noar and R M Pettigrew, and meets at least once each year. The directors consider that it is appropriate that the Chairman of the Committee should be Sir Andrew Hugh Smith. The members of the Committee consider that they have the requisite skills and experience to fulfill the responsibilities of the Committee.

The Audit Committee reviews the actions and judgments of management in relation to the interim and annual financial statements and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Investment Adviser's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors. Representatives of the Company's auditors attend the Committee meeting at which the draft Annual Report and financial statements are considered. The directors' statement on the Company's system of internal control is set out below.

The Audit Committee considers the independence and objectivity of the auditors on an annual basis. The Audit Committee considers the independence and objectivity of the auditors has not been impaired or compromised.

The Audit Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the AGM.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance, and reports formally to shareholders twice a year by way of the Annual Report and the Interim Report. This is supplemented by the quarterly publication, through the London Stock Exchange, of the net asset value of the Company, and the daily publication of the Company's share price.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Investment Adviser are available in person to meet with and answer shareholders' questions. In addition, representatives of the Investment Adviser periodically hold shareholder workshops which review the Company's performance and industry development. During the year, the Company's broker and the Investment Adviser have held regular discussions with shareholders. The directors are made fully aware of shareholders' views. The Chairman and directors make themselves available, as and when required, to address shareholder queries.

The directors may be contacted through the Company Secretary whose details are shown on page 17.

The Company's Annual Report is published in time to give shareholders at least 21 clear days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 17. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against for each resolution.

Internal Control

Under an agreement dated 28 February 1996, the executive functions of the Company have been sub-contracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- A clearly defined investment strategy for YFM Private Equity Limited, the Investment Adviser to the Company. All decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Investment Adviser.
- Regular reviews of the Company's investments, liquid assets and liabilities, and revenue and expenditure.
- Regular reviews of compliance with the venture capital trust regulations to retain status.
- The Audit Committee reviews the internal control procedures adopted by the Investment Adviser and the Board approves annual budgets prepared by the Investment Adviser.
- The Board receives copies of the management accounts on a regular basis showing comparisons with budget. These include a report by the Investment Adviser with a review of performance. Additional information is supplied on request.

The Board confirms that procedures to implement the guidance, Internal Control: Guidance for Directors on the Combined Code ("the Turnbull Report"), were in place throughout the year ended 31 March 2007 and up to the date of this report.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than twice a year. There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than

the year under review and up to the date of approval of the Annual Report. The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review. The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the Turnbull Report.

The directors have reviewed the effectiveness of the Company's systems of internal control for the year to the date of this report. The directors are of the opinion that the Company's systems of internal, financial, and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company.

Corporate Governance and Voting Policy

The Company delegates responsibility for monitoring its investments to YFM Private Equity Limited whose policy, which has been noted by the Board, is as follows:

YFM Private Equity Limited is committed to introducing corporate governance standards into the companies in which it invests. With this in mind, the Company's investment agreements contain contractual terms specifying the required frequency of management Board meetings and of annual shareholders' meetings, and for representation at such meetings through YFM Private Equity Limited. In addition, provision is made for the preparation of regular and timely management information to facilitate the monitoring of investee company performance in accordance with the best practice in the private equity sector.

Going Concern

The directors have carefully considered the going concern issue and are satisfied that the Company has sufficient cash resources to meet its obligations for the foreseeable future. Therefore, the directors believe that it is appropriate to continue to apply the going concern basis in preparing these financial statements.

Investment Policy

The investment policy of the company is to create a portfolio that blends a mix of companies operating in traditional industries with those that offer opportunities in the development and application of innovation.

The Investment Adviser, YFM Private Equity Limited, is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments. Once approved, further due diligence is carried out as necessary and HM Revenue & Customs clearance is obtained for approval as a qualifying VCT investment.

The Board regularly monitors the performance of the portfolio and the investment targets set by the relevant VCT legislation. Reports are received from YFM Private Equity Limited as to the trading and financial position of each investee company and members of the investment team regularly attend Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT investment targets so that the Board can ensure that the status of the Company is maintained and take corrective action where appropriate.

Prior to the investment of funds in suitable qualifying companies, the liquid assets of the Company are invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to YFM Private Equity Limited, the portfolio is managed by Brewin Dolphin Securities Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio. Government stocks are classified as cash equivalents due to their use as temporary holdings whilst venture capital opportunities arise.

Financial Instruments

Further information on financial instruments is provided in Note 8 to the financial statements.

Financial Assets

Investments made in suitable qualifying holdings predominantly comprise Ordinary shares with, in some instances, either fixed rate coupon preference shares, cumulative unsecured loan stocks or debenture loans. Each investment is valued in accordance with the policy set out on page 16 of this report. Investments in fixed interest Government securities are valued at their market value as at the balance sheet date.

The Company invests in financial assets to comply with the VCT legislation and provide capital growth for shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim.

Due to the structure of certain investments, preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company has the option of repaying earlier. In some instances the redemption carries a premium repayment.

The Board has set aside an amount of up to 20% of funds available for investment to be invested in AiM quoted companies that meet the Company's investment criteria. Where appropriate, the Board will invest relatively small amounts in new share issues of AiM quoted companies for small minority holdings. Due to the existence of a quoted share price, opportunities to realise these investments will occur on a more frequent basis than for unquoted investments. When making investments in AiM quoted companies it is the Board's intention to hold that investment for the medium-term to achieve capital growth for the shareholders. However, the Board regularly reviews these investments so that opportunities for realisation can be acted upon at the most appropriate time.

Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

Details of financial assets held at 31 March 2007 can be found in the Investment Adviser's Review and notes 7 and 8 to these Financial Statements.

This report was approved by the Board on 26 June 2007 and signed on its behalf by

J E P Gervasio
Company Secretary

Directors' Remuneration Report

The Board does not have a separate Remuneration Committee due to the size of the Board and the remuneration procedures currently in place. In the directors' opinion and under The Listing Rules, there is no requirement for an independent Remuneration Committee.

Directors and their Interests

The directors of the Company at 31 March 2007 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as follows:

	Number of Ordinary shares at 31 March 2007	Number of C shares at 31 March 2007	Number of Ordinary shares at 31 March 2006	Number of C shares at 31 March 2006
Sir Andrew Hugh Smith	40,243	10,000	30,000	10,000
P S Cammerman	25,293	5,000	20,025	5,000
R Last	25,243	10,000	15,000	10,000
S J Noar	–	–	–	–
R M Pettigrew	17,500	5,075	17,500	5,075

On 9 May 2007 the C shares were converted into Ordinary shares. The conversion, in accordance with the Articles of Association, was by reference to a conversion formula based on the relative net assets of the Company on 30 April 2007, being the calculation date. As a result of the conversion, the directors' holdings in C shares were replaced with Ordinary shares as follows:

	Number of new Ordinary shares
Sir Andrew Hugh Smith	11,247
P S Cammerman	5,623
R Last	11,247
S J Noar	–
R M Pettigrew	5,708

None of the directors held any option to acquire additional shares at any time during either year.

Brief biographical notes on the directors are given on page 17. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below, and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves.

The Company had no employees in either year.

Administration

YFM Private Equity Limited has acted as Investment Adviser and performed administrative and secretarial duties for the Company since 28 February 1996. The principal terms of the agreement are set out in note 3 to the financial statements. YFM Private Equity Limited is authorised and regulated by the Financial Services Authority. Mr Cammerman is a director of YFM Private Equity Limited and has a beneficial shareholding interest in its ultimate parent company YFM Group (Holdings) Limited.

Under the Subscription Rights Agreement dated 28 February 1996 YFM Private Equity Limited has a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to shareholders. However, such incentive will only apply in the event that the return to shareholders (after taking account of the effect of the incentive) is at least equal to the movement in the FTSE™ All-Share Index over the relevant period, calculated on a total return basis. No entitlement has accrued to YFM Private Equity Limited in either year under this incentive agreement. By a Deed of Assignment dated 19 December 2003, the benefit of the subscription right was assigned to YFM Private Equity Limited Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Mr Cammerman is one of the beneficiaries of that Trust.

Basic Remuneration

Total directors' remuneration for the year amounted to £45,000 (2006: £44,167) all of which was paid to four individuals for services as directors and none of which was paid to third parties in respect of directors' services.

The total fees paid in respect of individual directors who served during the year were as follows:

	2007 £	2006 £
Sir Andrew Hugh Smith	15,000	15,000
P S Cammerman	–	–
R Last	10,000	10,000
S J Noar	10,000	9,167
R M Pettigrew	10,000	10,000

There are no executive directors (2006: none). Mr Cammerman, who is a director of the Company's Investment Adviser, receives no fees for his services as director of the Company. None of Mr Cammerman's remuneration from YFM Private Equity Limited is considered to relate to his role with the Company.

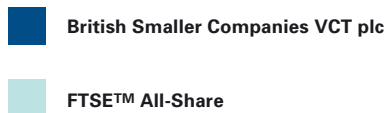
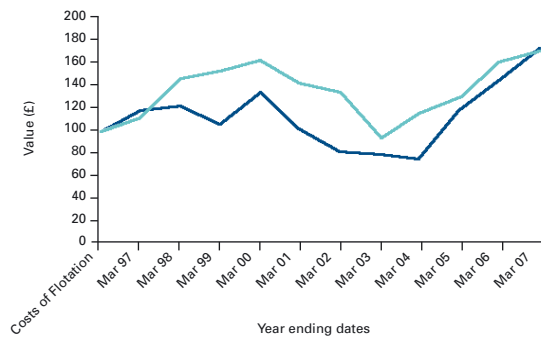
Directors' Remuneration Report

It is the Company's policy not to provide any performance emoluments, benefits in kind, any other emoluments or pension contributions to any director. No directors are, or have previously been, entitled to shares under any share option or long-term incentive schemes.

The 'Basic Remuneration' section is the only part of the Director's Remuneration Report subject to audit. All other sections are not subject to audit.

Performance Graph

The graph below shows a comparison between the Company's total shareholder return compared with the companies in the FTSE™ All-Share Index from the date of flotation to 31 March 2007. The return from the Company is based on a shareholder receiving basic tax relief on his or her investment at the initial outset of the Company but ignores any capital gains rollover relief and assumes all dividends are re-invested. The graph looks at the value, by the end of March 2007, of £100 invested in the Company's shares with the value of £100 invested in the FTSE™ All-Share Index. The directors consider this to be the most appropriate published index on which to report on comparative performance given the focus of your Company's investments are invariably in relatively early stage unquoted companies.



This report was approved by the Board on 26 June 2007 and signed on its behalf by

Sir Andrew Hugh Smith
Chairman

To the Members of British Smaller Companies VCT plc

We have audited the financial statements of British Smaller Companies VCT plc for the year ended 31 March 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Changes In Shareholders' Equity, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This 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 auditors' report and for no other purpose. To the fullest extent permitted by 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' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes that specific information presented in the Chairman's Statement and Investment Adviser's Review that is cross referenced from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 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 risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Investment Adviser's Review, the Directors' Report including the Business Review and Corporate Governance Statement, and the unaudited part of the Directors' Remuneration Report. 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 Audit Opinion

We conducted our audit in accordance with 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 and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments 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 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 IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 March 2007 and of its profit for the year then ended;
- 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; and
- the information given in the Directors' Report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors
London
26 June 2007

Income Statement

For the year ended 31 March 2007

		Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Income	2	327	41	368	413	38	451
Administrative expenses:	3						
Investment advisory fee		(352)	(29)	(381)	(314)	(18)	(332)
Other expenses		(216)	(18)	(234)	(202)	(13)	(215)
		(568)	(47)	(615)	(516)	(31)	(547)
Gains on realisation of investments	7	423	80	503	806	1	807
Gains on investments held at fair value	7	1,043	39	1,082	1,477	95	1,572
Profit on ordinary activities before taxation		1,225	113	1,338	2,180	103	2,283
Taxation	4	-	-	-	-	-	-
Profit for the year from continuing operations		1,225	113	1,338	2,180	103	2,283
Basic and diluted earnings per share	6	7.82p	8.98p	7.91p	14.55p	8.38p	13.89p

The accompanying notes on pages 34 to 46 are an integral part of these financial statements.

Balance Sheet

At 31 March 2007

	Notes	Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Assets							
Non-current assets							
Financial assets at fair value through profit or loss	7	11,056	571	11,627	10,382	427	10,809
Current assets							
Trade and other receivables	9	501	11	512	448	10	458
Cash and cash equivalents	10	4,042	825	4,867	4,531	864	5,395
		4,543	836	5,379	4,979	874	5,853
Liabilities							
Current liabilities							
Trade and other payables	11	(205)	(13)	(218)	(101)	(14)	(115)
Net current assets		4,338	823	5,161	4,878	860	5,738
Net assets		15,394	1,394	16,788	15,260	1,287	16,547
Shareholders' equity							
Share capital	12	1,519	629	2,148	1,566	629	2,195
Share premium account	13	1,258	555	1,813	781	555	1,336
Capital redemption reserve	13	221	–	221	117	–	117
Special reserve	13	2,408	–	2,408	3,330	–	3,330
Retained earnings	13	9,988	210	10,198	9,466	103	9,569
Total shareholders' equity		15,394	1,394	16,788	15,260	1,287	16,547
Net asset value per share	14	101.3p	110.8p	102.1p	97.5p	102.2p	97.9p

The accompanying notes on pages 34 to 46 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 26 June 2007 and were signed on its behalf by:

Sir Andrew Hugh Smith
Chairman

Statement of Changes in Shareholders' Equity

For the year ended 31 March 2007

Total Shares	Share capital	Share premium account	Capital redemption reserve	Special reserve	Retained earnings	Total equity
Balance at 31 March 2005	1,637	112	75	3,661	7,842	13,327
Profit for the year	–	–	–	–	2,283	2,283
Dividends	–	–	–	–	(556)	(556)
Purchase of own shares	(42)	–	42	(331)	–	(331)
Issue of C share capital	504	505	–	–	–	1,009
Issue costs of C share capital	–	(62)	–	–	–	(62)
Issue of Ordinary share capital	90	788	–	–	–	878
Issue costs of Ordinary share capital	–	(47)	–	–	–	(47)
Issue of share capital on DRIS*	6	40	–	–	–	46
Balance at 31 March 2006	2,195	1,336	117	3,330	9,569	16,547
Profit for the year	–	–	–	–	1,338	1,338
Dividends	–	–	–	–	(709)	(709)
Purchase of own shares	(104)	–	104	(922)	–	(922)
Issue of Ordinary share capital	57	517	–	–	–	574
Issue costs of Ordinary share capital	–	(40)	–	–	–	(40)
Balance at 31 March 2007	2,148	1,813	221	2,408	10,198	16,788

The accompanying notes on pages 34 to 46 are an integral part of these financial statements.

The above table includes prior year comparatives.

*DRIS being the Dividend Re-investment Scheme.

The special distributable reserve was created following approval of the Court and the resolution of the Shareholders to cancel the Company's share premium account and is available for use for other corporate purposes of the Company.

Included within retained earnings, in respect of unrealised gains on investments held at fair value through profit or loss is £6,803,000 (2006: £6,622,000). These gains are not distributable under the Companies Act 1985.

Details of changes in shareholders' equity for the Ordinary shares and C shares can be found in note 13.

Cash Flow Statement

For the year ended 31 March 2007

	Notes	Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Net cash (outflow) inflow from operating activities	15	(262)	(5)	(267)	(54)	2	(52)
Cash flows from (used in) investing activities							
Purchase of fixed asset investments	7	(1,111)	(269)	(1,380)	(899)	(330)	(1,229)
Proceeds from sale of fixed asset investments	7	1,943	255	2,198	3,518	–	3,518
Net cash from (used in) investing activities		832	(14)	818	2,619	(330)	2,289
Cash flows (used in) from financing activities							
Issue of C shares		–	–	–	–	1,009	1,009
Costs of C share issue		–	(3)	(3)	–	(62)	(62)
Issue of Ordinary shares		574	–	574	878	–	878
Cost of Ordinary share issue		(80)	–	(80)	–	–	–
Purchase of own Ordinary shares		(796)	–	(796)	(367)	–	(367)
Dividends paid		(703)	(6)	(709)	(510)	–	(510)
Net cash (used in) from financing activities		(1,005)	(9)	(1,014)	1	947	948
Net (decrease) increase in cash and cash equivalents		(435)	(28)	(463)	2,566	619	3,185
Cash and cash equivalents at the beginning of the year		4,531	864	5,395	1,970	246	2,216
Effect of market value changes in cash equivalents	7	(54)	(11)	(65)	(5)	(1)	(6)
Cash and cash equivalents at the end of the year	10,16	4,042	825	4,867	4,531	864	5,395

The accompanying notes on pages 34 to 46 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2007

1. Principal Accounting Policies

Basis of Preparation

The accounts have been prepared on a going concern basis and in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The financial statements are prepared in accordance with IFRS and interpretations in force at the reporting date. The Company has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

Investments Held at Fair Value Through Profit or Loss

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with the documented investment strategy of the Company. Information about these financial assets is provided internally on a fair value basis to the Company's key management. The Company's investment strategy is to invest cash resources in venture capital investments as part of the Company's long-term capital growth strategy. Consequently, all investments are classified as held at fair value through profit or loss.

Transaction costs on purchases are expensed immediately through the income statement in accordance with IFRS.

All investments are measured at fair value with gains and losses arising from changes in fair value being included in the Income Statement as gains (losses) on investments held at fair value.

Quoted investments are valued at market bid prices.

Unquoted investments are valued in accordance with IAS 39 'Financial Instruments: Recognition and measurement' and where appropriate the International Private Equity and Venture Capital Valuation Guidelines issued in October 2006. A detailed explanation of the valuation policies of the Company is included on page 16.

Although the Company holds more than 20% of the equity of certain companies, it is considered that the investments are held as part of the Company's investment portfolio. Accordingly, and as permitted by IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures', their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of the holdings represent investments in associated undertakings.

Under IAS 27 'Consolidated and separate financial statements' control is presumed to exist when the parent owns, directly or indirectly more than half of the voting power by a number of means. The Company does not hold more than 50% of the equity of any of the companies within the portfolio. In addition, it does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established. Fixed returns on non-equity shares are recognised on a time apportionment basis so as to reflect the effective yield, provided there is no reasonable doubt that payment will be received in due course. All other income is recognised on an accruals basis.

1. Principal Accounting Policies (continued)

Expenses

Expenses are accounted for on an accruals basis. Costs directly attributed to the C shares or Ordinary shares are allocated on that basis. Common costs are allocated on a Net Assets basis between the two classes of share.

Cash and Cash Equivalents

Investments in quoted Government Securities are classified as cash equivalents as they meet the definition in IAS 7 'Cash flow statements' of short-term highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of change in value. Government Securities are valued at market bid prices.

Taxation

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Chapter 3 Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises.

Deferred tax is recognised on all temporary differences at the balance sheet date.

Deferred tax assets are only recognised to the extent that they are regarded as recoverable. Deferred tax is calculated at the tax rates that are expected to apply when the asset is realised, under tax legislation enacted or substantively enacted by the balance sheet date.

Dividends Payable

Dividends payable are recognised only when an obligation exists. Interim dividends are recognised when paid and final and special dividends are recognised when approved by Shareholders in general meetings.

Segmental Reporting

Business segments are considered to be the primary reporting segment. The directors are of the opinion that the Company has engaged in a single segment of business of investing in equity and debt securities and therefore no segmental reporting is provided.

Geographical segments are considered to be the secondary reporting segment. Investment income and expenses are all derived from one geographical segment being that of the United Kingdom. An analysis of investments and the remaining assets and liabilities of the Company by geographical segment has not been given, as the results are not considered to be significant.

Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those used to determine the fair value of investments at fair value through profit or loss.

The fair value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date.

Notes to the Financial Statements

2. Income

	Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Income from investments:						
Dividends from unquoted companies	75	1	76	228	–	228
Dividends from AiM quoted companies	33	3	36	23	1	24
	108	4	112	251	1	252
Interest on loans to unquoted companies	33	4	37	47	–	47
Fixed interest Government securities	146	33	179	106	37	143
Income from investments held at fair value through profit or loss	287	41	328	404	38	442
Interest on deposits	40	–	40	9	–	9
	327	41	368	413	38	451

3. Administrative Expenses

	Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Investment advisory fee (including irrecoverable VAT):	352	29	381	314	18	332
Other expenses:						
Administration fee (including irrecoverable VAT)	48	4	52	49	3	52
Directors' remuneration (including NI)	48	4	52	41	3	44
Auditors' remuneration:						
audit fees	11	1	12	20	1	21
non audit services (see below)	–	–	–	8	1	9
General expenses	109	9	118	84	5	89
	216	18	234	202	13	215
	568	47	615	516	31	547

During the year the Company obtained tax compliance services and VCT compliance monitoring services from the Company's former auditor PricewaterhouseCoopers LLP amounting to £3,000 (2006: £3,000) and £4,000 (2006: £6,000) respectively. These are categorised as 'other services relating to taxation' and 'all other services' under the applicable guidance.

YFM Private Equity Limited provides investment advisory services to the Company. For the Ordinary shares this is under an agreement dated 28 February 1996. The agreement may be terminated by not less than 12 months' notice given by either party at any time. No notice has been issued to or by YFM Private Equity Limited terminating the contract as at the date of this report.

The key features of the agreement are:

- YFM Private Equity Limited receives an investment advisory fee, payable quarterly in advance, at the rate of 2% of gross assets less current liabilities, calculated at half-yearly intervals as at 31 March and 30 September.
- Under this same agreement YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee based on £35,000 (at 28 February 1996) per annum plus annual adjustments to reflect movements in the Retail Prices Index.

YFM Private Equity Limited provides investment advisory services to the Company for the C share fund under an agreement dated 26 November 2004. Under the agreement YFM Private Equity Limited receives an investment advisory fee, payable quarterly in advance, at the rate of 2% of C Share Fund net assets calculated at half-yearly intervals as at 31 March and 30 September. In accordance with the agreement, the investment advisory fee is subject to a cap such that total expenditure does not exceed 3.5% of C Share Fund net assets. The agreement may be terminated by not less than 12 months' notice given by either party at any time. No notice has been issued to or by YFM Private Equity Limited terminating the contract as at the date of this report.

3. Administrative Expenses (continued)

The total remuneration payable to YFM Private Equity Limited in the year (including VAT) was £433,000 (2006: £384,000).

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 26 under the heading "Basic Remuneration".

Under the Subscription Rights Agreement dated 28 February 1996 (assigned as described on page 26), The YFM Private Equity Limited Trust has a performance-related incentive, structured so as to entitle it to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to shareholders. However, such incentive will only apply in the event that the return to shareholders (after taking account of the effect of the incentive) is at least equal to the movement in the FTSE™ All-Share Index over the relevant period, calculated on a total return basis.

Under an Agreement dated 26 November 2004, YFM Private Equity Trust will be entitled to receive a payment to recognise exceptional performance in relation to the C share Fund. The performance related payment will only take effect when the total return to C shareholders (as measured by the gross asset value per C share) plus dividends paid per C share exceeds 8% per annum ('the Hurdle Rate'), and will be an amount equivalent to 20% of the excess over the Hurdle Rate calculated and payable annually for each of the financial periods up to 31 March 2008 unless conversion of the C shares shall have taken place prior to that date. Under the agreement, performance shortfall in any one year will have to be made up in the following year(s) before a further payment can be made and value added tax (if applicable) will be payable thereon.

4. Tax on Loss on Ordinary Activities

	Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Corporation tax payable at 19% (2006: 19%)	-	-	-	-	-	-
Profit (loss) on ordinary activities before taxation	1,225	113	1,338	2,180	103	2,283
Profit (loss) on ordinary activities multiplied by standard small company rate of corporation tax in UK of 19% (2006: 19%)	233	21	254	414	20	434
Effect of:						
UK dividends received	(20)	(1)	(21)	(48)	-	(48)
Non taxable profits on investments	(278)	(23)	(301)	(434)	(18)	(452)
Excess management expenses	65	3	68	68	(2)	66
Tax on profit on ordinary activities	-	-	-	-	-	-

The company has no provided or unprovided deferred tax liability in either year.

Deferred tax assets of £388,000 calculated at 22% (2006: £270,000 calculated at 19%) in respect of unrelieved management expenses have not been recognised, as management do not currently believe that it is probable that sufficient taxable profits will be available against which the assets can be recovered.

Due to the Company's status as a venture capital trust, and the continued intention to meet the conditions required to comply with the Chapter 3 Part 6 of the Income Tax Act 2007, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or realisation of investments.

5. Dividends

	Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Interim paid – 1.5p per Ordinary share; paid 6 November 2006 (2006: 1.5p)	234	–	234	223	–	223
Final paid – 3.0p per Ordinary share and 0.5p per C share; paid 11 August 2006 (2006: 2.2p)	469	6	475	333	–	333
	703	6	709	556	–	556

The interim dividend paid on 6 November 2006 has been recognised in the year ended 31 March 2007 along with the 2006 final dividend. A final dividend for 2007 of 3.0p per Ordinary share is proposed. This dividend (£792,000) has not been recognised in the year ended 31 March 2007, as the obligation did not exist at the balance sheet date.

6. Earnings per Share

The earnings per share is based on net profit from ordinary activities after tax of £1,338,000 (2006: £2,283,000) and 16,923,000 (2006: 16,432,000) shares, being the weighted average number of shares in issue during the year.

The earnings per Ordinary share is based on net profit from ordinary activities after tax of £1,225,000 (2006: £2,180,000) and 15,664,000 (2006: 14,979,000) shares, being the weighted average number of shares in issue during the year.

The earnings per C share is based on net profit from ordinary activities after tax of £113,000 (2006: £103,000) and 1,259,000 (2006: 1,228,000) shares, being the weighted average number of shares in issue during the year.

The Company has no securities in issue that would have a dilutive effect in either period and hence the basic and diluted earnings per share are the same.

Since the year end the Company has issued 9,802,240 Ordinary shares and the 1,258,676 C shares have been converted into 1,415,585 Ordinary shares, taking the total number of Ordinary shares in issue to 26,409,189. Had these transactions occurred before the year end, they would have significantly affected the number of shares used in the earnings per share calculation.

7. Investments at Fair Value Through Profit or Loss

Movements in investment at fair value through profit or loss during the year to 31 March 2007 are summarised as follows:

Ordinary Share Portfolio

	Unquoted Investments £000	AiM Quoted Investments £000	Total Fixed Asset Investments £000	Fixed Income Securities £000	Total Investments £000	Total Investments 2006 £000
Opening cost	4,598	2,586	7,184	3,234	10,418	10,378
Opening unrealised gain (loss)	1,568	1,630	3,198	(6)	3,192	2,323
Opening valuation	6,166	4,216	10,382	3,228	13,610	12,701
Additions at cost	845	266	1,111	2,541	3,652	3,872
Disposal proceeds	(1,763)	(194)	(1,957)	(1,894)	(3,851)	(5,246)
Net profit (loss) realised on disposal	537	(117)	420	3	423	806
Changes in fair value in the year	(374)	1,474	1,100	(57)	1,043	1,477
	5,411	5,645	11,056	3,821	14,877	13,610
Closing cost	4,496	2,533	7,029	3,882	10,911	10,418
Closing unrealised gain (loss)	915	3,112	4,027	(61)	3,966	3,192
Closing valuation	5,411	5,645	11,056	3,821	14,877	13,610

7. Investments at Fair Value Through Profit or Loss (continued)

C Share Portfolio

	Unquoted Investments	AiM Quoted Investments	Total Fixed Asset Investments	Fixed Income Securities	Total Investments	Total Investments 2006
	£000	£000	£000	£000	£000	£000
Opening cost	108	222	330	833	1,163	–
Opening unrealised gain (loss)	–	97	97	(2)	95	–
Opening valuation	108	319	427	831	1,258	–
Additions at cost	170	99	269	–	269	1,435
Disposal proceeds	(183)	(72)	(255)	(296)	(551)	(273)
Net profit (loss) realised on disposal	126	(43)	83	(3)	80	1
Changes in fair value in the year	–	47	47	(8)	39	95
	221	350	571	524	1,095	1,258
Closing cost	221	240	461	532	993	1,163
Closing unrealised gain (loss)	–	110	110	(8)	102	95
Closing valuation	221	350	571	524	1,095	1,258

Movements in investment at fair value through profit or loss during the year to 31 March 2007 are summarised as follows:

Total Portfolio

	Unquoted Investments	AiM Quoted Investments	Total Fixed Asset Investments	Fixed Income Securities	Total Investments	Total Investments 2006
	£000	£000	£000	£000	£000	£000
Opening cost	4,706	2,808	7,514	4,067	11,581	10,378
Opening unrealised gain (loss)	1,568	1,727	3,295	(8)	3,287	2,323
Opening valuation	6,274	4,535	10,809	4,059	14,868	12,701
Additions at cost	1,015	365	1,380	2,541	3,921	5,307
Disposal proceeds	(1,946)	(266)	(2,212)	(2,190)	(4,402)	(5,519)
Net profit (loss) realised on disposal	663	(160)	503	–	503	807
Changes in fair value in the year	(374)	1,521	1,147	(65)	1,082	1,572
	5,632	5,995	11,627	4,345	15,972	14,868
Closing cost	4,717	2,773	7,490	4,414	11,904	11,581
Closing unrealised gain (loss)	915	3,222	4,137	(69)	4,068	3,287
Closing valuation	5,632	5,995	11,627	4,345	15,972	14,868

There has been £717,000 of provisions made against unquoted investments during the year but no write offs. Amounts written off such investments amounted to £Nil in 2006 and 2005.

There have been no individual write-downs or provisions during the year, which exceeded 5% of the total assets of the Company (2006: none).

Fixed income securities are UK Government stocks and are classified as cash equivalents due to their use as temporary holdings until venture capital investment opportunities arise.

7. Investments at Fair Value Through Profit or Loss (continued)

Significant Interests

At 31 March 2007 the Company held a significant holding of at least 20% of the issued Ordinary share capital, either individually or alongside commonly managed funds, in the following companies, all of which are registered in England and Wales:

Company and principal activity	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Freshroast Coffee Co. Limited (processes, packages and markets coffee, tea and related vending ingredients)	5,271 Ordinary	13%	13%
RMF Engineering Limited (design and fabrication from specialist metals)	40,000 Ordinary	25%	–
Cater Plus Services Limited (provides contract services to nursing homes)	100,000 Ordinary	27%	7%
GO Outdoors Limited (retailer of outdoor clothing and accessories)	35,992 Ordinary	23%	–
Images at Work Limited (supplies and manages corporate clothing contracts)	75,000 Ordinary 90,000 Preference	33% 100%	– –
Sheet Piling (UK) Limited (specialist civil engineering service)	32,659 Ordinary	36%	–
Primal Pictures Limited (production of anatomical CD ROMs)	430,320 Ordinary 300,000 Preference	4% 13%	17% 26%

Commonly managed funds refer to those funds also under the management of YFM Private Equity Limited, the Investment Adviser to the Company, both on a discretionary and a non-discretionary basis.

YFM Private Equity Limited, the Company's Investment Adviser, also acts as investment adviser or discretionary fund manager to certain other funds under its management that have also invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised below. The amounts shown below are the net cost of investments as at 31 March 2007 and exclude those companies which are in receivership or liquidation.

	British Smaller Technology Companies VCT 2 plc £000	The Yorkshire Fund LP £000	North West Business Investment Scheme £000	Yorkshire Enterprise Finance Limited £000	Total £000	British Smaller Companies VCT plc £000
Brulines (Holdings) plc	81	–	–	–	81	162
Cambridge Cognition Ltd	240	–	–	–	240	325
Cater Plus Services Ltd	250	–	–	–	250	1,000
Cozart plc	1,519	–	–	–	1,519	451
Freshroast Coffee Co. Ltd	–	5	–	–	5	5
Primal Pictures Ltd	961	–	–	93	1,054	500
Hallco 1389 and 1390 Ltd	50	–	100	–	150	200

8. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used. All financial assets are held in Sterling, hence there is no foreign currency exchange rate exposure. The investments are valued in accordance with the policy stated on page 16, therefore, the directors consider all assets to be carried at a valuation that equates to fair value.

Investments are made in a combination of equity and fixed rate financial instruments so as to comply with venture capital trust legislation and provide potential high future capital growth. Surplus funds are held in fixed rate Government stocks until suitable qualifying investment opportunities arise.

At 31 March 2007 and 31 March 2006, the financial assets, by value, comprised:

	2007		2006	
	£000	%	£000	%
Venture capital investments				
Ordinary shares	10,341	61.6	9,924	60.0
Fixed Interest Preference shares	423	2.5	412	2.5
Debenture loan stock	863	5.2	473	2.8
	11,627	69.3	10,809	65.3
Fixed interest Government Securities	4,345	25.9	4,059	24.5
Cash	522	3.1	1,336	8.1
Other financial assets	512	3.0	458	2.8
Other financial liabilities	(218)	(1.3)	(115)	(0.7)
	16,788	100.0	16,547	100.0

At 31 March 2007 and 31 March 2006, the financial assets, by value, and the analysis by interest rate risk, comprised:

	2007		2006	
	£000	%	£000	%
Venture capital investments				
Fixed interest investment assets	1,286	7.8	600	3.7
Floating rate investment assets	–	–	285	1.8
Ordinary shares	10,341	62.7	9,924	61.2
	11,627	70.5	10,809	66.7
Fixed interest Government Securities	4,345	26.3	4,059	25.1
Cash	522	3.2	1,336	8.2
	16,494	100.0	16,204	100.0

The weighted average interest rate on fixed rate financial assets in venture capital investments held at 31 March 2007 was 7.9% (2006: 5.7%) The weighted average period for which these rates applied was 4 years, 6 months (2006: 2 years, 10 months). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 5.4% (2006: 4.5%) with a weighted average period of 13 years 1 month (2006: 2 years, 6 months).

Ordinary share investments are excluded from the weighted average interest rate risk analysis in both years as there is no pre-defined maturity date on these investments.

Other financial assets, being prepayments and accrued income and other financial liabilities, being accrued expenses, attract no interest and have an expected maturity date of less than 1 year. The fair value of other financial assets and liabilities is considered not to be materially different from their book value due to their short term maturity.

8. Financial Instruments (continued)

The Company invests in financial assets to comply with the venture capital trust legislation and provide capital growth for shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim.

Due to the structure of certain investments, preference share redemptions and loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee company has the option of repaying earlier. In some instances the redemption carries a premium repayment.

Investments in Government stocks are held solely for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Therefore, trading in these stocks is determined mainly by the demand for venture capital funds.

In accordance with IAS 39 'Financial Instruments: Recognition and Measurement', the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain criteria set out in the standard. No embedded derivatives have been identified by the Company.

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. The investments in equity and fixed interest stocks of unquoted and AiM quoted companies the Company holds are thinly traded, and as such, the prices are more volatile than those of more widely backed securities. In addition, the ability of the Company to purchase or sell investments is also constrained by the requirements set down for venture capital trusts.

9. Trade and Other Receivables

	Ord shares	C shares	Total	Ord shares	C shares	Total
	2007	2007	2007	2006	2006	2006
	£000	£000	£000	£000	£000	£000
Amounts receivable within one year:						
Prepayments and accrued income	155	11	166	116	10	126
Other debtors	346	–	346	332	–	332
	501	11	512	448	10	458

10. Cash and Cash Equivalents

	Ord shares	C shares	Total	Ord shares	C shares	Total
	2007	2007	2007	2006	2006	2006
	£000	£000	£000	£000	£000	£000
Cash at bank	221	301	522	1,303	33	1,336
Cash equivalents – fixed interest quoted investments	3,821	524	4,345	3,228	831	4,059
	4,042	825	4,867	4,531	864	5,395

11. Trade and Other Payables

	Ord shares	C shares	Total	Ord shares	C shares	Total
	2007	2007	2007	2006	2006	2006
	£000	£000	£000	£000	£000	£000
Amounts payable within one year:						
Accrued expenses	72	7	79	54	5	59
Other creditors	133	6	139	47	9	56
	205	13	218	101	14	115

12. Called-up Share Capital

	2007		2006
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000
			Allotted, Called-up and Fully paid £000
Ordinary shares of 10p			
Authorised: 40,000,000 (2006: 25,000,000)	4,000		2,500
Issued: 15,191,364 (2006: 15,654,160)		1,519	1,566
C shares of 50p each			
Authorised: 25,000,000 (2006: 25,000,000)	12,500		12,500
Issued: 1,258,676 (2006: 1,258,676)		629	629
Total			
Authorised:	16,500		15,000
Issued:		2,148	2,195

The authorised share capital has increased by Ordinary Resolution of the Company passed on 4 January 2007 by the creation of 15,000,000 ordinary shares. This represented an increase of 10 per cent of the authorised share capital at the time. The reason for the increase was to enable Directors to issue the maximum number of Ordinary shares assuming full acceptance of the 2006/2007 Offer and the 2007/2008 Offer and to ensure that there was sufficient remaining authorised share capital for further Ordinary share issues, including the issue of new Ordinary shares on the conversion of the C shares.

The movement in issued capital during the year was as follows:

	Date	Number of shares	Share Capital £000
Ordinary shares as at 1 April 2006		15,654,160	1,566
Issues of shares under Top Up Offer	04 Apr 06	576,764	57
Purchase of own shares	25 May 06	(609,560)	(61)
Purchase of own shares	30 Jan 07	(200,000)	(20)
Purchase of own shares	05 Mar 07	(90,000)	(9)
Purchase of own shares	22 Mar 07	(140,000)	(14)
Ordinary shares at 31 March 2007		15,191,364	1,519
C shares at 31 March 2007 and 2006		1,258,676	629
Total as at 31 March 2007		16,450,040	2,148

Full details of the share purchases are set out in the Directors' Report under the heading 'Share Capital and Purchase of Own shares'.

The Company's C shares are a class of convertible share, the net proceeds of which are accounted for separately by the Company as a C share Fund until they are converted in accordance with the relevant provisions in the Company's Articles of Association. Dividends will be paid to C shareholders prior to conversion on net income received and accrued from investments made by the C share Fund. The new Ordinary shares arising on conversion will rank pari passu with the Ordinary shares then in issue. The Ordinary shares arising on conversion will be divided amongst the C shareholders pro rata to their respective holdings of C shares.

The surplus capital and assets of the Company shall on a winding-up or a return of capital (otherwise than on a purchase by the Company of any of its shares) prior to conversion be applied amongst the Ordinary shareholders pro-rata according to the nominal capital paid up on their holdings of Ordinary shares after having deducted therefrom an amount determined in accordance with the formula given in the Company's Articles of Association which amount shall be applied amongst the C shareholders pro rata according to the nominal capital paid up on their holdings of C shares.

12. Called-up Share Capital (continued)

The capital and assets of the Company shall on winding-up or a return of capital (otherwise than on a purchase by the Company of any of its shares) after conversion be applied as follows:

a) firstly, if there are deferred shares in issue (deferred shares may be created upon conversion of the C shares in accordance with the formula), in paying to the deferred shareholders 1p in respect of every 1,000,000 deferred shares (or part thereof) of which they are respectively the holders; and

b) secondly, the surplus shall be divided amongst the Ordinary shareholders pro rata according to the nominal capital paid up on their holdings of Ordinary shares.

The C shares shall carry the right to receive notice of or to attend or vote at any general meeting of the Company. The deferred shares shall not carry any right to receive notice of or to attend or vote at any general meeting of the Company. The voting rights of the Ordinary shares are not affected.

13. Changes in Shareholders' Equity

Ordinary shares

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2005	1,512	–	75	3,661	7,842	13,090
Profit for the year	–	–	–	–	2,180	2,180
Dividends	–	–	–	–	(556)	(556)
Purchase of own shares	(42)	–	42	(331)	–	(331)
Issue of Ordinary share capital	90	788	–	–	–	878
Issue costs of Ordinary share capital	–	(47)	–	–	–	(47)
Issue of share capital on DRIS*	6	40	–	–	–	46
Balance at 31 March 2006	1,566	781	117	3,330	9,466	15,260
Profit for the year	–	–	–	–	1,225	1,225
Dividends	–	–	–	–	(703)	(703)
Purchase of own shares	(104)	–	104	(922)	–	(922)
Issue of Ordinary share capital	57	517	–	–	–	574
Issue costs of Ordinary share capital	–	(40)	–	–	–	(40)
Balance at 31 March 2007	1,519	1,258	221	2,408	9,988	15,394

*DRIS being the Dividend Re-investment Scheme.

C shares

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2005	125	112	–	–	–	237
Profit for the year	–	–	–	–	103	103
Issue of C share capital	504	505	–	–	–	1,009
Issue costs of C share capital	–	(62)	–	–	–	(62)
Balance at 31 March 2006	629	555	–	–	103	1,287
Profit for the year	–	–	–	–	113	113
Dividends	–	–	–	–	(6)	(6)
Balance at 31 March 2007	629	555	–	–	210	1,394

14. Net Asset Value per Share

The net asset value per share is calculated on attributable assets of £16,788,000 (2006: £16,547,000) and 16,450,040 (2006: 16,912,836) shares in issue at the year end.

The net asset value per Ordinary share is calculated on attributable assets of £15,394,000 (2006: £15,260,000) and 15,191,364 (2006: 15,654,160) shares in issue at the year end.

The net asset value per C share is calculated on attributable assets of £1,394,000 (2006: £1,287,000) and 1,258,676 (2006: 1,258,676) shares in issue at the year end.

The terms of the C share conversion are such that the combined net asset value per share would have been 101.3p at 31 March 2007.

The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted net asset values per share are the same.

Since the year end the Company has issued 9,802,240 Ordinary shares and the 1,258,676 C shares have been converted into 1,415,585 Ordinary shares, taking the total number of Ordinary shares in issue to 26,409,189. Had these transactions occurred before the year end, they would have significantly affected the number of shares used in the net asset value per share calculation.

15. Reconciliation of Profit on Ordinary Activities before Taxation to Net Cash (Outflow) Inflow from Operating Activities

	Ord shares 2007 £000	C shares 2007 £000	Total 2007 £000	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000
Profit on ordinary activities before tax	1,225	113	1,338	2,180	103	2,283
(Increase) decrease in prepayments and accrued income	(39)	(1)	(40)	44	(10)	34
Increase in accruals	18	2	20	5	5	10
Profit on realisation of investments in the year	(423)	(80)	(503)	(806)	(1)	(807)
Revaluation of investments in the year	(1,043)	(39)	(1,082)	(1,477)	(95)	(1,572)
Net cash (outflow) inflow from operating activities	(262)	(5)	(267)	(54)	2	(52)

16. Analysis of Changes in Cash and Cash Equivalents

	31 March 2006 £000	Cash flow £000	Other non cash changes £000	31 March 2007 £000
Cash	1,336	(814)	–	522
Cash equivalents – fixed interest quoted investments	4,059	351	(65)	4,345
	5,395	(463)	(65)	4,867

17. Financial Commitments

There have been no investments approved by the Board of Directors at 31 March 2007 that have not been reflected in these accounts (2006: none). Since the year-end, investments were approved by the board into Harvey Jones Limited and Harris Hill Limited (2006: none). Further information can be found in the Directors' Report under the heading 'Events after the balance sheet date' on pages 20 and 21.

18. Related Party Transactions

Mr Cammerman is executive chairman of YFM Private Equity Limited, the Investment Adviser to the Company, and a wholly owned subsidiary of YFM Group Limited which held 3.5% of the issued share capital of British Smaller Companies VCT plc at 31 March 2007 (2006: 3.4%). Mr Cammerman is also a director of YFM (Group) Holdings Limited, the ultimate parent company of YFM Private Equity Limited, in which he has a beneficial shareholding.

YFM Group Limited, the parent company of YFM Private Equity Limited, the Investment Adviser to the Company, has an investment in Primal Pictures Limited. At 31 March 2007 YFM Group's investment in Primal Pictures was valued at £43,050 (2006: £53,750).

Mr Noar is a non-executive director of Cozart plc. The appointment was made pursuant to an agreement following the investment made in that company. During the year he received remuneration of £31,000 (2006: £20,000) from Cozart plc in respect of his services. Mr Noar holds a 0.4% equity stake in Cozart plc.

19. Events after the Balance Sheet Date

Details of events after the balance sheet date are set out in the Directors' Report under the heading 'Events after the balance sheet date' on pages 20 and 21.

Notice of the Annual General Meeting

No: 3134749

BRITISH SMALLER COMPANIES VCT plc

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 23 Berkeley Square, London, W1J 6HE, on 1 August 2007 at 12.00 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions, which shall be proposed as Ordinary Resolutions:

As Ordinary Business

ORDINARY RESOLUTIONS

- (1) To receive the Annual Report and accounts for the year ended 31 March 2007.
- (2) To declare a final dividend for the year to 31 March 2007 of 3.0p per Ordinary Share.
- (3) To approve the Directors' Remuneration Report.
- (4) To re-elect as a Director Sir Andrew Hugh Smith.
- (5) To re-elect as a Director Mr P Cammerman.
- (6) To re-elect as a Director Mr R Last.
- (7) To re-elect as a Director Mr S Noar who retires by rotation.
- (8) That PKF (UK) LLP be re-appointed as independent auditors to the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers LLP) to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and special notice having been received of this invitation to propose the resolution and that the directors be authorised to fix their remuneration.

SPECIAL RESOLUTIONS

- (1) THAT in substitution for any existing power under the Section 95 of the Companies Act 1985 ("the Act"), but without prejudice to the exercise of any such power prior to the date hereof, the Directors be and are hereby empowered during the period commencing on the passing of this resolution and expiring at the conclusion of the Company's next annual general meeting, or on the expiry of 15 months following the passing of the resolution, whichever is the earlier (unless previously revoked, varied or extended by the Company in general meeting pursuant to Section 95 of the Act), to allot equity securities (as defined in Section 94(2) to Section 94(3A) of the Act) for cash pursuant to the authority given in accordance with Section 80 of the Act, pursuant to Ordinary Resolution (2) passed on 4 January 2007, as if Section 89(1) of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with:

- 1.1 an offer of securities by way of rights;
- 1.2 the Subscription Rights Agreement dated 28 February 1996 made between the Company and YFM Private Equity Limited;
- 1.3 the allotment for cash (otherwise than pursuant to sub-paragraph 1.1 and 1.2 above) of equity securities up to an aggregate nominal amount of 10 per cent of the issued share capital of the Company as at 20 June 2007;

but so that this authority shall allow the Company to make offers or agreements before the expiry and the Directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to Ordinary Resolution (2) passed on 4 January 2007" were omitted.

Notice of the Annual General Meeting

- (2) THAT in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary shares of 10p in the capital of the Company provided that:
- 2.1 the maximum aggregate number of Ordinary shares authorised to be purchased is 3,958,737 being 14.99% of issued Ordinary shares as at 20 June 2007;
 - 2.2 the maximum price which may be paid for an Ordinary share is an amount equal to maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
 - 2.3 the minimum price which may be paid for an Ordinary share is its nominal value;
 - 2.4 this authority shall take effect from 1 August 2007 and shall expire at the conclusion of the Company's next annual general meeting or on the expiry of 15 months following the passing of the resolution, whichever is the earlier; and
 - 2.5 the Company may make a contract or contracts to purchase Ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

J E P Gervasio

Secretary

26 June 2007

Registered Office:

Saint Martins House

210-212 Chapeltown Road

Leeds LS7 4HZ

Notes:

- (1) A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham BR3 4ZB, not later than 48 hours before the time of appointment for holding the Meeting.
- (3) In accordance with Regulation 41 of The Uncertificated Securities Regulation 2001, only those members entered on The Company's register of members not later than 12.00 noon on 30 July 2007 or, if the meeting is adjourned, Shareholders entered on The Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.
- (4) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting if he wishes to do so.
- (5) Biographical details concerning the four directors retiring and offering themselves for re-election can be found on page 17 of the Annual Report.

British Smaller Companies VCT plc

Form of Proxy

To be used at the Annual General Meeting of the Company
to be held at 23 Berkeley Square, London, W1J 6HE on 1 August 2007 at 12.00 noon

I/We being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Meeting or (see note a) of as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 1 August 2007 at 12.00 noon and at any adjournment thereof.

My/our proxy is to vote as indicated below.

ORDINARY RESOLUTIONS

	FOR	AGAINST	WITHHELD
1. To receive the Directors' Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a final dividend	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Director's Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as a director Sir Andrew Hugh Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as a director Mr P Cammerman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect as a director Mr R Last	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect as a director Mr S Noar	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To reappoint PKF (UK) LLP as auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SPECIAL RESOLUTIONS

1. To authorise the directors pursuant to Section 95 of the Companies Act 1985 to allot equity securities for cash without regard to pre-exemption rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To authorise the Company to make market purchases of its own shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature..... Dated2007

NOTES

- (a) If you wish to appoint a proxy or proxies other than the Chairman of the Meeting please insert that person's name and address and delete (initialling the deletion) "the Chairman of the Meeting or". A proxy need not be a Member of the Company. You may attend and vote at the Meeting instead of any proxy appointed by you if you so wish.
- (b) Please indicate by inserting "X" in the appropriate box the way in which your proxy is to vote. If you do not do so, your proxy may vote or abstain as he thinks fit. Your proxy will have the authority to vote at his discretion on any amendment or other motion proposed at the Meeting, including any motion to adjourn the Meeting. This proxy will only be used in the event of a poll being directed or demanded.
- (c) This form of proxy must be signed by the appointor or his attorney duly authorised in writing or if the appointor is a corporation this proxy must be given under its Common Seal or be signed by an officer or attorney duly authorised in writing.
- (d) To be valid, this form of proxy duly completed and any power of attorney or other authority (if any) under which it is notarially certified, or office copy of such power or authority, must be deposited at the office of the Company's Registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham BR3 4ZB not less than 48 hours before the time appointed for holding the above Meeting or (as the case may be) adjourned Meeting.
- (e) The resolutions are set out in full in the Notice of Annual General Meeting.



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**CAPITA REGISTRARS
PROXY DEPARTMENT
THE REGISTRY
34 BECKENHAM ROAD
BECKENHAM
BR3 4ZB**

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First fold

Financial Summary

	Year ended 31 March 2007	Year ended 31 March 2006	Year ended 31 March 2005	Year ended 31 March 2004	Year ended 31 March 2003
Ordinary Shares					
Income	£327,000	£413,000	£396,000	£364,000	£452,000
Profit (loss) on ordinary activities before and after tax	£1,225,000	£2,180,000	£(45,000)	£(755,000)	£(1,027,000)
Profit (loss) per Ordinary share	7.82p	14.55p	(0.29)p	(4.88)p	(6.60)p
Total recognised gain (loss) per Ordinary share	–	–	–	12.87p	(2.13)p
Dividend paid per Ordinary share	4.5p	3.7p	7.4p	–	0.85p
Cumulative dividend paid	35.0p	30.5p	26.8p	19.4p	19.4p
Net assets attributed to Ordinary shares	£15,394,000	£15,260,000	£13,090,000	£12,093,000	£10,137,000
Net asset value per Ordinary share	101.3p	97.5p	86.6p	78.3p	65.3p
Total return per Ordinary share	136.3p	128.0p	113.4p	97.7p	84.7p
C Shares					
Income	£41,000	£38,000	–	–	–
Profit on ordinary activities before and after tax	£113,000	£103,000	–	–	–
Profit per C share	8.98p	8.38p	–	–	–
Dividend paid per C share	0.5p	–	–	–	–
Cumulative dividend paid	0.5p	–	–	–	–
Net assets attributed to C shares	£1,394,000	£1,287,000	£237,000	–	–
Net asset value per C share	110.8p	102.2p	95.0p	–	–
Total return per C share	111.3p	102.2p	95.0p	–	–

The accounts were prepared under UK Generally Accepted Accounting Practices in 2003 and 2004 and were prepared under International Financial Reporting Standards in 2005, 2006 and 2007.

Advisers to the Company

- Investment Adviser and Custodian
YFM Private Equity Limited
Saint Martins House
210-212 Chapeltown Road
Leeds LS7 4HZ

- Registrars
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

- Solicitors
Keeble Hawson
Protection House
16-17 East Parade
Leeds LS1 2BR

- Bankers
The Royal Bank of Scotland plc
27 Park Row
Leeds LS1 5QB

- Stockbrokers
Teather & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

- Fixed Interest Securities Adviser
Brewin Dolphin Securities Limited
34 Lisbon Street
Leeds LS1 4LX

- Independent Auditors
PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London EC1M 3AP

- VCT Status and Tax Adviser
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

British Smaller Companies VCT plc

Saint Martins House

210 - 212 Chapeltown Road

Leeds LS7 4HZ