

Annual Report for the year ended  
31 March 2011



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## British Smaller Companies VCT plc

The Company's investments have typically involved funding for management buy-outs and buy-ins, acquisition funding and business development. The investment policy of the Company is to create a portfolio that blends a mix of businesses operating in traditional industries with those

that offer opportunities in the development and application of innovation. It currently has 29 investments with the cost of investments being £18 million and with a current audited valuation of £30 million as at 31 March 2011.

## Financial Calendar

Results Announced	13 June 2011	Annual General Meeting	29 July 2011
Ex-dividend Date	20 July 2011	Dividend Paid	22 August 2011
Record Date	22 July 2011		

# Financial Highlights

## Total Return Increases by 22%

Your Company's Total Return has increased by 31.8 pence per share from 144.4 pence per share to 176.2 pence per share since March 2010 which includes cumulative dividends paid of 56.2 pence per share.

## Net Asset Value Before Accounting for Dividends Rises by 34%

Your Company recorded an excellent performance this year with an overall increase above the opening Net Asset Value of 34%. In the year the valuation increased by 31.8 pence per share from 94.4 pence at 31 March 2010 to 126.2 pence per share, out of which dividends totalling 6.2 pence per share were paid, resulting in a year end Net Asset Value of 120.0 pence per share.

## Net Asset Value Growth

The underlying growth in the investment portfolio was £10.6 million. The increase in the value of the investment in GO Outdoors Limited was particularly pleasing with a significant proportion of the value translating into cash after the year end. Also pleasing was the growth in the rest of the portfolio that amounted to 5.2 pence per share, itself an increase of 5.6% on the opening value.

## Dividends for the Year

The total dividend for the year is proposed to be 6.25 pence per share which includes a special dividend of 1.25 pence per share paid following the realisation of the investment in Sheet Piling (UK) Limited, an interim dividend of 2.0 pence per share, together with a final dividend of 3.0 pence per share.

## Original Investor Return of 76.2%

Shareholders who subscribed in the first round following the Company's first offer have received 56.2 pence per share of dividends to date with the total return of 176.2 pence per share representing a 76.2% uplift on their original investment. Taking account of the original 20% upfront tax relief this return increases to 120.3%.

## Major Portfolio Success

Following the year end, the partial realisation of the investment in GO Outdoors Limited in April 2011 generated £6.5 million in sale proceeds whilst at the same time leaving a significant residual investment alongside a new investment partner.

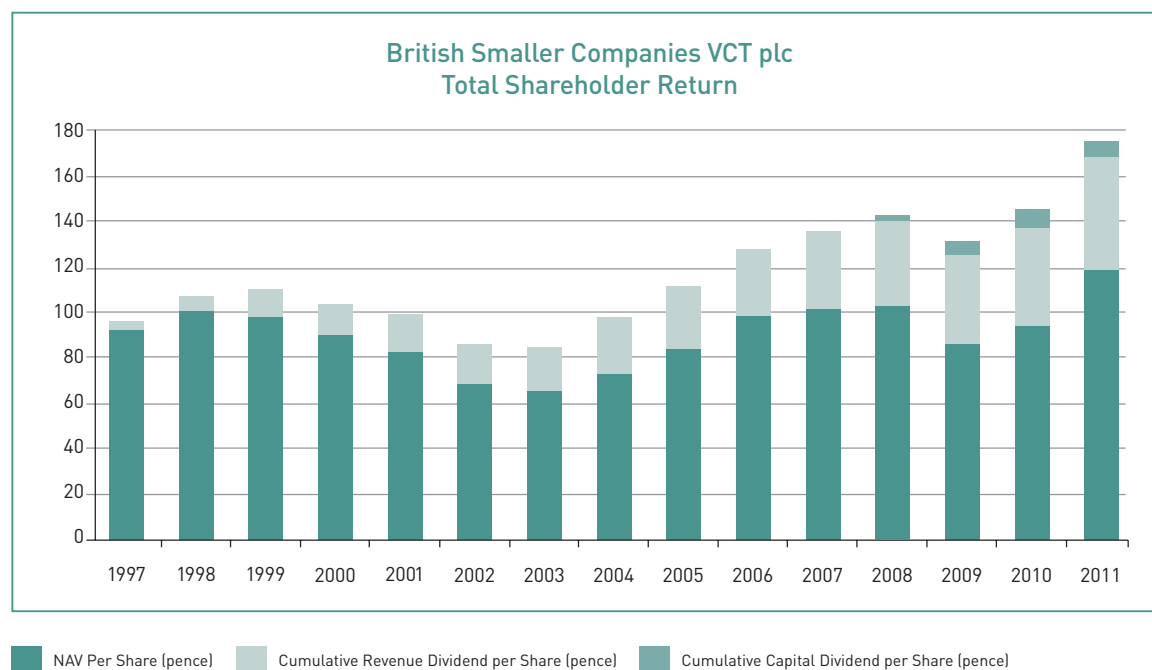
# Financial Summary

## Five Year Summary

	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2008	Year ended 31 March 2007
Income	<b>£1,174,000</b>	£1,129,000	£1,173,000	£1,035,000	£327,000
Profit (loss) before and after taxation	<b>£10,373,000</b>	£4,202,000	£(3,266,000)	£2,205,000	£1,225,000
Profit (loss) per Ordinary share	<b>31.38p</b>	13.65p	(10.62)p	8.51p	7.82p
Dividend per Ordinary share paid and proposed for the year	<b>6.25p</b>	5.0p	5.0p	5.0p	4.5p
Cumulative dividend paid	<b>56.2p</b>	50.0p	45.0p	40.0p	35.0p
Net assets attributed to Ordinary shares	<b>£41,172,000</b>	£29,008,000	£26,400,000	£26,198,000	£15,394,000
Net Asset Value per Ordinary share	<b>120.0p</b>	94.4p	85.7p	102.1p	101.3p
Total Return per Ordinary share	<b>176.2p</b>	144.4p	130.7p	142.1p	136.3p

## Total Shareholder Return and Dividend History

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 Summary

## Summary of Dividends by Revenue and Capital

	Revenue	Capital	Total*
Dividends paid to 31 March 2011 (pence)	48.2	8.0	56.2

\*Excluding final dividend proposed of 3.0 pence per share which will be paid out of revenue

## Total Shareholder Return by Fundraising Round

The table below shows the Total Return on each fundraising round per share.

	Offer price	Offer price net of tax	Net Asset Value at 31 March 2011	Cumulative dividends paid since Fundraisings*	Total Return since Fundraisings*	Total Return since Fundraisings with participation in the DRIS * & **	IRR *****
	Pence	Pence	Pence	Pence	Pence	Pence	%
1995/96 & 1996/97 Tax Year	100.00	80.00	120.0	56.2	176.2	181.6	4.6
1996/97 & 1997/98 Tax Year	100.00	80.00	120.0	55.1	175.1	180.5	4.9
1997/98 & 1998/99 Tax Year	105.00	84.00	120.0	51.6	171.6	177.0	4.6
2004/05 Tax Year (C share***)	99.50	59.70	135.0	21.8	156.8	158.9	7.7
2005/06 Tax Year	100.00	60.00	120.0	25.8	145.8	149.3	8.8
2006/07 & 2007/08 Tax Year	102.50	71.75	120.0	21.3	141.3	143.5	9.1
2007/08 & 2008/09 Tax Year	106.25	74.38	120.0	16.3	136.3	137.5	9.2
2009/10 & 2010/11 Tax Year****	97.25	68.08	120.0	6.3	126.3	126.3	30.5

The table below shows the example of a Shareholder who invested £3,000 in the first round. Total Return is equivalent to £5,286 or £5,447 if the Shareholder had opted to participate in the dividend reinvestment scheme since its inception.

	Offer price	Offer price net of tax	Net Asset Value at 31 March 2011	Cumulative dividends paid since Fundraising*	Total Return since Fundraising*	Total Return since Fundraising with participation in the DRIS * & **
1995/96 & 1996/97 Tax Year	3,000	2,400	3,603	1,686	5,286	5,447

This table excludes the benefits of all tax reliefs.

\* This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company

\*\* Assuming that all dividends were invested under the terms of the current DRIS

\*\*\* NAV has been adjusted for conversion of C Shares into Ordinary shares in May 2007

\*\*\*\* Does not include the allotments on 22 March 2011 or 5 April 2011 pursuant to the linked offer with British Smaller Companies VCT2 plc

\*\*\*\*\* The IRR calculation has been performed based on the issue date of 5 April in the earlier tax year in all cases

# Chairman's Statement

I am pleased to present to Shareholders the Annual Report of the Company for the year ended 31 March 2011.

Your Company recorded an excellent performance with Net Asset Value increasing by 33.7% from 94.4 pence per share at 31 March 2010 to 126.2 pence per share, out of which dividends totalling 6.2 pence per share were paid, resulting in a Net Asset Value of 120.0 pence per share at 31 March 2011. Total return (Net Asset Value plus cumulative dividends) rose to 176.2 pence per share from 144.4 pence per share at 31 March 2010. The increase, before payment of dividends, on the opening Net Asset Value over the 12 month period to 31 March 2011 is an uplift of 31.8 pence per share, equivalent to 33.7%, which compares to growth in the FTSE SmallCap® Index of 36.5% and the FTSE AiM All-Share® Index of 28.2% over the same period. I am delighted to report that the Company is now the top performing Venture Capital Trust over a 1, 3, 5 and 10 year period to date as reported by Citywire.

Although economic uncertainty has continued throughout the year, many of the portfolio companies have benefited from gradually improving market conditions as well as improved efficiencies following tough measures to control costs in recent years. In spite of the significant market uncertainties of recent years, many management teams continue to plan and invest for the future and we expect to see an increase in new investment opportunities in the year ahead. It is with this in mind that the Board sought to increase the Company's investment capacity via the recent linked offer with British Smaller Companies VCT2 plc, with a total of £4.41 million being raised by the Company.

The dividends paid in the year of 6.25 pence per share included a special dividend of 1.25 pence per share following the profitable realisation of the investment in Sheet Piling (UK) Limited. This compares to the underlying annual dividend of 5.0 pence per share paid in the year to March 2010 and your Board is recommending that this underlying dividend of 5.0 pence per share is maintained by way of a final dividend of 3.0 pence per share in respect of the year to March 2011. If approved, this dividend will be paid on 22 August 2011 to Shareholders on the register at 22 July 2011. The final dividend has not been recognised in the accounts under IFRS as the contractual obligation did not exist at the balance sheet date.

Your Board will maintain the policy of seeking to improve on this underlying dividend as and when profitable cash realisations allow.

Under the incentive scheme to reward the Fund Manager a payment of £142,278 (equivalent to 0.41 pence per share) is to be made in respect of the year ended 31 March 2011. This payment will be made following the Annual General Meeting on 29 July 2011.

## Investment Portfolio

Over the year to March 2011 the total capital value growth from the opening portfolio was £10.56 million, or 61.2%, made up of £10.37 million of unrealised value growth and £0.19 million of profits on realisations. Of the unrealised value growth the biggest single contributor was GO Outdoors Limited which gained £8.68 million. A £28 million investment in the company by the international private equity firm 3i plc was completed after the year end in April 2011. This post balance sheet event enabled a £6.54 million partial realisation of the Company's holding. Although a significant proportion of the total value increase derived from this single investment, it is also pleasing to see that the rest of the portfolio also demonstrated growth in value gaining £1.69 million overall, with good performances from many investments.

The year to March 2011 saw a general increase in investment activity with a total of £2.96 million invested and this is expected to increase further in the year ahead. This included four new investments totalling £2.0 million and three further investments totalling £0.96 million. A £1.0 million investment was made into President Engineering Group Limited to fund the buyout of a niche UK manufacturer of mining safety systems and industrial valves. £0.50 million was invested alongside British Smaller Companies VCT2 plc in Bluebell Telecom Group Limited, a provider of telecommunications service to UK businesses. The investment was made to help fund an acquisition and further acquisitions are expected as the sector consolidates. Two new quoted investments of £0.25 million each were made into EKF Diagnostics Holdings plc and Woodspeen Training plc. EKF Diagnostics Holdings plc is an AiM quoted company established to supply diagnostic devices and is led by an experienced management team well known to the Fund Manager. Woodspeen Training plc has raised a total of £2.6 million via the UK PLUS market to lead a consolidation in the vocational training sector.

A £0.75 million further investment was made into Adex Bridge Investments Limited, where we are working with an experienced manager to identify underperforming and turnaround situations in the Midlands region. £0.16 million was invested into Fishawack Limited as part of a £0.8 million capital raising to support the acquisition of another UK based medical communications business, to benefit from increased scale and improve the spread of customers. £0.05 million was invested alongside other institutional investors into domiciliary care provider Ellfin Home Care Limited as part of a £0.25 million working capital package.

Although there were no significant realisations in the 12 months to March 2011, there were several partial disposals which collectively generated proceeds of £0.83 million. The largest of these was a refinancing of the shareholder loans in RMS Group Holdings Limited with £2.5 million of new long term bank facilities which generated proceeds of £0.48 million for the Company, an uplift in value of £0.09 million. Improved trading conditions also enabled the redemption of £0.03 million of preference shares in Primal Pictures Limited using surplus cash. The Company's residual holding in its first ever

# Chairman's Statement

investment, Freshroast Coffee Co. Limited was also sold back to the management team for the opening value of £0.03 million. In the AiM quoted portfolio there were three partial disposals of shares in EKF Diagnostics Holdings plc, Tikit Group plc and Straight plc which collectively generated cash proceeds of £0.27 million and a further uplift in value of £0.9 million.

The very strong unrealised gain from the portfolio of £10.37 million (2010: a gain of £3.83 million), derives principally from gains in the unquoted investments.

Within this, the biggest single increase was from GO Outdoors Limited (up £8.68 million) where significant progress has been made in opening a further nine new stores with historical stores contributing to further profit growth. Towards the end of the year the business received a number of approaches from trade and financial investors which culminated in the £28 million investment from 3i plc in April 2011 (after the end of the reporting period). This transaction enabled the Company to realise £6.54 million retaining a 14.09% shareholding. Your Fund Manager will work together with 3i plc to continue to support this highly successful retail concept which has plans over the next two to three years to further increase the number of its stores across the UK.

The other unquoted investments also achieved a strong improvement in valuation over the year of £1.69 million with several businesses benefiting from improved efficiencies and better market conditions. Humber port operator RMS Group Holdings Limited saw a £0.54 million increase in value (in addition to the £0.09 million realised profit from the debt refinancing) with a focused strategy delivering growth in sales and margins. The two recruitment businesses, Harris Hill Holdings Limited and Darwin Rhodes Group Limited, both saw an increase in value (£0.36 million and £0.23 million respectively) as their markets improved during the year. Kitchen retailer, Harvey Jones Holdings Limited, also delivered an improved profit in 2010 resulting in a value increase of £0.28 million.

Excluding the £0.09 million of realised gains in the year the unrealised quoted portfolio has overall remained flat. However, there were strong performances during the year at coal services group Hargreaves Services plc, business software service provider Tikit Group plc and retail supply chain software business K3 Business Technology Group plc.

The portfolio also generated income during the year of £0.72 million (2010: £0.47 million) from interest and dividend payments, resulting in a total portfolio return for the year before administrative fees of £11.28 million (2010: £4.79 million return).

## Financial Results

The result for the financial year ended 31 March 2011 was a pre-tax profit of £10.37 million which comprised profits in respect of capital and revenue of £9.67 million and £0.70 million respectively, as compared to pre-tax profit of £4.20 million in 2010 (which comprised a capital profit of £3.56 million and a revenue profit of £0.64 million).

The movement in Net Asset Value in the year has been:

	Pence per share
31 March 2010	94.4
Total increase in the year	31.8
	126.2
Dividends paid in year	(6.2)
31 March 2011	120.0

Cash and gilt investments at the end of the year amounted to £11.65 million, representing 28.3% of Net Asset Value (2010: £11.56 million representing 39.9% of Net Asset Value). A further £8.4 million was received after the year end in respect of the partial sale of the holding in GO Outdoors Limited and the successful linked fundraising offer with British Smaller Companies VCT2 plc noted below.

## Shareholder Communications and Fundraising

The Company increased its investment capacity through a linked offer together with British Smaller Companies VCT2 plc. An initial allotment of £2.59 million for 2,025,838 new Ordinary shares (128 pence per share) was made on 22 March 2011 by the Company along with further allotments of 1,038,195 new Ordinary shares on 5 April 2011 and 383,134 new Ordinary shares on 4 May 2011 bringing the total new funds raised by the Company under the linked offer to £4.41 million. The additional investment capacity will enable the Company to take advantage of attractive investment opportunities that are expected to arise over the coming years.

Your Board continues to support the Shareholder workshops run by the Fund Manager where investors are invited to meet members of the Board, representatives from YFM Private Equity Limited, the Company's Fund Manager, and the CEOs of one or more of our investee companies. We were delighted to welcome over 150 Shareholders to the most recent workshop held on 9 February 2011 at the British Museum. Your Board remains committed to these events which we believe are useful in increasing Shareholders' knowledge of the Company's activities.

Your Board plans to offer an online share portal service to Shareholders in the near future. This will allow Shareholders to access their shareholding details and certain communications online affording better access to the Registrar.

In addition, the Board remains committed to the objective of achieving a consistent dividend stream. This policy has been continued with your Board proposing that a final dividend of 3.0 pence per share will be paid on 22 August 2011 to Shareholders on the register as at 22 July 2011.

# Chairman's Statement

Your Board continues to actively promote a dividend reinvestment scheme. Your Board believes that the combination of achieving a consistent dividend, growth in net asset value and the tax relief on reinvested dividends remains an attractive investment proposition. During the year, a total of 0.27 million shares were issued under the scheme. This represented 14.7% of the interim and final dividends paid.

During the year, the Company purchased a total of 778,448 Ordinary shares at an average price of 88.73 pence per share (2010: 331,882 shares at an average price of 73.6 pence per share). The existing buy-back authority which currently expires on 29 July 2011 is proposed to be extended until the date of the 2012 Annual General Meeting or fifteen months, whichever is the earlier. A resolution to this effect will be proposed at the Company's Annual General Meeting on 29 July 2011.

The Annual General Meeting of the Company will be held at 12:00 noon on 29 July 2011 at 33 St James Square, London, SW1Y 4JS. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 59.

## Regulation

Your Board is pleased to note the positive developments regarding Venture Capital Trusts in the recent budget of 23 March 2011 which are intended to be implemented from April 2012. It is pleasing that the positive contribution of Venture Capital Trust investment on the UK's smaller businesses is being recognised.

Your Company has been investing in such businesses across all sectors since 1996. By investing in smaller companies we have shown that it is possible to achieve good returns for investors, create sustainable economic growth and increase the flow of capital to these businesses from private investors. Your Board very much welcomes this Government's approach in seeking to support the activities of Venture Capital Trusts.

Your Board continues to monitor regulatory developments and is considering a European Union directive concerning the hedge fund and private equity fund managers which was approved by the European Parliament in November 2010 and adopted by the Council of the European Union in May 2011. Further secondary legislation is to be introduced over a two year transition period. Insofar as the directive affects the Company the Board will report further once the full impact of the directive becomes clear.

## Board of Directors

Robert Pettigrew and Richard Last resigned as Non-Executive Directors of the Company effective from 21 September 2010. As previously announced Edward Buchan has taken up his appointment as a Non-Executive Director effective from 22 September 2010. Edward is also a director of Downing Absolute Income VCT 1 plc. The changes to the Board's composition were in response to the new Listing Rules with regard to the independence of directors. I would like to reiterate

my thanks to Robert and Richard for their very significant contribution over many years and extend my welcome to Edward, who is already making an excellent contribution.

## Outlook

It is encouraging to see many portfolio businesses reporting improving results. The portfolio remains well funded with many companies having taken the opportunity to improve efficiency or change their strategy in response to the uncertain economic conditions. This Company is well placed both to diversify its investment portfolio and to continue to support the existing portfolio companies as they seek to expand both organically and through selective acquisitions.

The Board remains of the opinion that the upcoming period is again likely to present many good investment opportunities, both for the existing portfolio businesses and for new investments. We expect management teams, owners and funders to be prepared to make decisions about expanding or selling their businesses and the Fund Manager is already reporting an increase in new investment enquiry levels. It was with this in mind that we increased the investment capacity of the Company to be in a strong position to take advantage of good opportunities as they arise.

I would like to take this opportunity to thank all Shareholders, both those who have supported the Company for a number of years and those who have recently invested, for their continued support, which we greatly value.



**Helen Sinclair**  
Chairman

13 June 2011



# Fund Manager's Review

Portfolio Valuation at 31 March 2011 and full history of realisations up to 31 March 2011

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost £000	Realised Proceeds to Date* £000	Investment Valuation at 31 March 2011 £000	Realised and Unrealised to Date £000
<b>Current Investments</b>							
GO Outdoors Limited	May-98	Sheffield	Consumer Products	556	460	13,521	13,981
Waterfall Services Limited	Feb-07	Warrington	Support Services	1,000	-	1,821	1,821
Adex Bridge Investments Limited	Mar-10	Midlands	Turnaround	1,750	-	1,750	1,750
Deep-Secure Ltd	Dec-09	Reading	Software	1,000	-	1,092	1,092
4G Capital Limited	Mar-10	North-West	Software	1,000	-	1,000	1,000
North Western Investments Limited	Feb-10	North-West	Turnaround	1,000	-	1,000	1,000
President Engineering Group Limited	Sep-10	Sheffield	Manufacturing	1,000	-	1,000	1,000
Hargreaves Services plc	Dec-07	Durham	Manufacturing	469	-	869	869
Fishawack Limited	Jan-08	Knutsford	Communications	775	-	811	811
Harvey Jones Holdings Limited	May-07	London	Manufacturing	777	-	699	699
Pressure Technologies plc	Jun-07	Sheffield	Industrial	425	-	638	638
Mattioli Woods plc	Nov-05	Leicester	Support Services	326	-	604	604
K3 Business Technology Group plc	Apr-08	Colne	Software	402	-	579	579
Lightmain Company Limited	Mar-10	Rotherham	Manufacturing	600	-	569	569
RMS Group Holdings Limited	Jul-07	Goole	Industrial	1,050	537	543	1,080
Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	-	500	500
Harris Hill Holdings Limited	Jun-07	Kingston-upon-Thames	Recruitment	600	-	465	465
Tikit Group plc	Jun-01	London	Software	226	95	404	499
Primal Pictures Limited	Mar-01	London	Healthcare	500	93	350	443
Darwin Rhodes Group Limited	Apr-08	London	Recruitment	444	-	333	333
EKF Diagnostics Holdings plc	Jul-10	London	Pharmaceuticals	250	105	290	395
Woodspeen Training plc	Dec-10	London	Training Provider	250	-	250	250
Cambridge Cognition Limited	May-02	Cambridge	Software	325	-	221	221
Straight plc	Feb-04	Leeds	Industrial	341	138	212	350
Patsystems plc	Oct-07	London	Software	222	-	172	172
Brulines plc	Oct-06	Stockton-on-Tees	Software	163	-	122	122
Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	823	-	65	65
Belgravium Technologies plc	Oct-05	Bradford	Software	200	-	61	61
Denison Mayes Group Limited	Aug-98	Leeds	Industrial	700	295	5	300
				<b>17,674</b>	<b>1,723</b>	<b>29,946</b>	<b>31,669</b>
Full realisations since March 2002				11,270	16,405	-	16,405
Full realisations prior to March 2002				6,394	3,246	-	3,246
<b>Total</b>				<b>35,338</b>	<b>21,374</b>	<b>29,946</b>	<b>51,320</b>

\*Proceeds include premiums and profits on loan repayments and preference redemptions

# Fund Manager's Review

## Reconciliation of Investment Portfolio Movement since 31 March 2010

Name of Company	Investment Valuation at 31 March 2010 £000	Realisations £000	Additions £000	Valuation gains (losses) £000	Investment Valuation at 31 March 2011 £000
<b>Current Investments</b>					
GO Outdoors Limited	4,835	-	-	8,686	13,521
Waterfall Services Limited	1,617	-	-	204	1,821
Adex Bridge Investments Limited	1,000	-	750	-	1,750
Deep-Secure Ltd	1,000	-	-	92	1,092
4G Capital Limited	1,000	-	-	-	1,000
North Western Investments Limited	1,000	-	-	-	1,000
President Engineering Group Limited	-	-	1,000	-	1,000
Hargreaves Services plc	614	-	-	255	869
Fishawack Limited	709	-	157	(55)	811
Harvey Jones Holdings Limited	417	-	-	282	699
RMS Group Holdings Limited	383	(383)	-	543	543
Harris Hill Holdings Limited	100	-	-	365	465
Darwin Rhodes Group Limited	105	-	-	228	333
Other investments	4,476	(262)	1,054	(226)	5,042
<b>Total Movement</b>	<b>17,256</b>	<b>(645)</b>	<b>2,961</b>	<b>10,374</b>	<b>29,946</b>

# Fund Manager's Review

## Investment Portfolios

This section describes the business of the active companies in the portfolio, in order of valuation at 31 March 2011. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed below.

The enterprise value of the quoted companies in the portfolio has been estimated based on the market capitalisation which has then been adjusted for the net debt position.

### GO Outdoors Limited

Sheffield  
www.gooutdoors.co.uk

Cost	£155,697	
Valuation	£13,520,645	
Dates of investment	May 1998, March 2002 and April 2007	
Enterprise value	£79.1 million	
Equity held	20.20%	
Valuation basis	Earnings multiple	
Dividends received	£190,606 (2010: £52,259)	
53 weeks ended 30 Jan 2010 (2009: 52 weeks ended)	<b>30 Jan 2010</b> £million	24 Jan 2009 £million
Sales	<b>75.43</b>	41.19
EBITDA	<b>4.88</b>	2.05
Profit before tax	<b>4.25</b>	1.21
Retained profits	<b>4.89</b>	2.08
Net assets	<b>10.32</b>	7.22

**GO Outdoors** is a retailer of outdoor clothing and equipment. The original investment of £500,000 in May 1998 supported the buyout with a second investment in March 2002 to support the company's first acquisition. The company has continued its expansion opening a further nine stores since January 2010, taking the total number of outlets to twenty-nine. The £28 million investment from 3i plc in April 2011 was in part to fund a continuation of the rollout of this successful retail concept.

### Waterfall Services Limited

Warrington  
www.caterplus.co.uk

Cost	£1,000,129	
Valuation	£1,821,354	
Date of investment	February 2007	
Enterprise value	£9.7 million	
Equity held	18.45%	
Valuation basis	Earnings multiple	
Dividends received	£23,333 (2010: £23,333)	
Interest	£53,333 (2010: £53,297)	
Year ended 31 March	<b>2010</b> £million	2009 £million
Sales	<b>36.33</b>	28.41
EBITDA	<b>1.23</b>	0.84
Profit before tax	<b>0.85</b>	0.44
Retained profits	<b>0.83</b>	0.33
Net assets	<b>1.59</b>	1.10

**Waterfall** is a contract caterer specialising in the care home sector. Since the original investment the company has expanded its original catering services business from supplying residential and care homes to supplying the educational market. There has been both organic and acquisitive growth which has broadened and diversified the customer base with significant progress being made in expanding the services provided to both the education and care home sectors.

### Adex Bridge Investments Limited

Midlands

Cost	£1,000,129	
Valuation	£1,821,354	
Dates of investment	March 2010 and March 2011	
Enterprise value	£1.8 million	
Equity held	50.00%	
Valuation basis	Price of recent investment, reviewed for change in fair value	
Interest	£8,922	
The first set of audited financial statements for Adex Bridge Investments Limited is not yet due.		

**Adex Bridge** was formed to provide investment to SME businesses whose performance needs to be improved. Adex Bridge is particularly focused on the Midlands and South West regions. With links to banks and other lenders it is well placed to expand its activities in the turnaround sector. Managing director Peter Bridge has previously run several engineering groups and has a successful track record of leading performance improvements within a wide range of private equity backed businesses.

# Fund Manager's Review

## Deep-Secure Ltd

Reading

[www.deep-secure.com](http://www.deep-secure.com)

Cost	£1,000,000
Valuation	£1,091,748
Date of investment	December 2009
Enterprise value	£4.0 million
Equity held	12.86%
Valuation basis	Earnings multiple
Interest	£54,000 (2010: £16,570)
Year ended 31 December	<b>2010</b>
	<b>£million</b>
Sales	<b>2.61</b>
EBITDA	<b>0.63</b>
Loss before taxation	<b>(0.50)</b>
Retained losses	<b>(0.50)</b>
Net liabilities	<b>(0.12)</b>

**Deep-Secure's** market leading products protect against threats to IT security via high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack demands more businesses rely on higher levels of security to protect their data. The main customers are in the government and defence sectors where tight security is essential.

## 4G Capital Limited

North West

Cost	£1,000,000
Valuation	£1,000,000
Date of investment	March 2010
Enterprise value	£1.0 million
Equity held	50.00%
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£8,054
The first set of audited financial statements for 4G Capital Limited is not yet due.	

**4G Capital** is an investment company led by an experienced serial entrepreneur in the software sector. With significant experience of running software businesses and developing teams and business strategies the company has identified the opportunity to fund more traditional software companies to transition to providing web-based services. The entrepreneur's past successes in growth and improvement programmes have delivered shareholder value in a variety of technology, manufacturing and service businesses

## North Western Investments Limited

North West

Cost	£1,000,000
Valuation	£1,000,000
Date of investment	February 2010
Enterprise value	£1.0 million
Equity held	50.00%
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£9,250
The first set of audited financial statements for North Western Investments Limited is not yet due.	

**North Western Investments** has significant contacts across the North West of England which makes it well-placed to expand its activities which are principally focused on acquiring and improving under-performing businesses. It supports an experienced turnaround management team based in Merseyside. The managing director has a background in international sales and marketing in a variety of industrial and service sectors gained both as managing director and chairman and a proven track record of transforming business performance.

# Fund Manager's Review

## President Engineering Group Limited

Sheffield

[www.conflo.com/www.bestobellvalves.com](http://www.conflo.com/www.bestobellvalves.com)

Cost	£1,000,000
Valuation	£1,000,000
Date of investment	September 2010
Enterprise value	£5.3 million
Equity held	20.00%
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£37,966 (2010: £nil)

The first set of audited financial statements for President Engineering Group Limited is not yet due.

**President Engineering** is a niche manufacturer of branded engineering products sold through agents to a diverse international customer base. The company produces mining safety systems sold to developed and developing economies under the Conflow brand and also cryogenic valves sold to the oil & gas sector under the Bestobell brand. The company backed a management buyout by the existing management team to continue the international development of these brands.

## Hargreaves Services plc

Durham

[www.hargreavesservices.co.uk](http://www.hargreavesservices.co.uk)

Cost	£468,550
Valuation	£869,100
Dates of investment	December 2007, January, February and March 2008
Enterprise value	£349.8 million
Equity held	0.35%
Valuation basis	Quoted bid price
Dividends received	£13,277 (2010: £11,594)

Year ended 31 May	2010 £million	2009 £million
Sales	<b>459.78</b>	503.09
EBITDA	<b>38.83</b>	32.25
Profit before tax	<b>30.72</b>	26.17
Retained profits	<b>51.81</b>	35.79
Net assets	<b>89.78</b>	71.67

In the years following its foundation in 1994 **Hargreaves Services** established itself as the largest independent bulk haulage company in Britain. The group has a national network of depots and facilities, and specialises in supplying and processing carbon-based minerals. It expanded into energy trading in mainland Europe and operates a colliery and coke plant. Interim results for the half-year to 30 November 2010 are in line with expectations, with particularly strong performance from the energy trading division.

## Fishawack Limited

Knutsford

[www.fishawack.com](http://www.fishawack.com)

Cost	£775,000
Valuation	£811,473
Dates of investment	January 2008, December 2009 and May 2010
Enterprise value	£5.6 million
Equity held	8.39%
Valuation basis	Earnings multiple
Interest	£53,815 (2010: £44,100)

Year ended 31 March	2010 £million	2009 £million
Sales	<b>4.30</b>	3.80
EBITA	<b>0.66</b>	0.87
Profit before tax	<b>0.66</b>	0.89
Retained profits	<b>1.16</b>	0.96
Net assets	<b>1.16</b>	0.96

Fishawack Limited has a small company exemption from filing full consolidated financial statements at Companies House.

**Fishawack** is an established, specialist healthcare communications agency focusing on the medical sector, with a strong reputation for providing specialist support for many of the world's top global pharmaceutical companies. Two acquisitions have been made, of its US partner and another UK medical communications business, to increase its international reach and service capacity and broaden the customer base. Fishawack continues to seek further sales growth, both organically and through acquisition.

# Fund Manager's Review

## Harvey Jones Holdings Limited

London

[www.harveyjones.com](http://www.harveyjones.com)

Cost	£777,143	
Valuation	£699,470	
Date of investment	May 2007	
Enterprise value	£5.2 million	
Equity held	6.88%	
Valuation basis	Earnings multiple	
Interest	£69,943 (2010: £70,182)	
Year ended	<b>2010</b>	2009
31 December	<b>£million</b>	£million
Sales	<b>10.87</b>	8.63
EBITA	<b>0.98</b>	0.08
Profit (loss) before tax	<b>0.27</b>	(0.37)
Retained profits	<b>0.09</b>	-
Net assets	<b>0.63</b>	0.53

**Harvey Jones** is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped Harvey Jones to retain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to 17 from 10 at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit as market conditions improve.

## Pressure Technologies plc

Sheffield

[www.pressuretechnologies.co.uk](http://www.pressuretechnologies.co.uk)

Cost	£425,421	
Valuation	£637,900	
Dates of investment	June and July 2007	
Enterprise value	£21.1 million	
Equity held	2.50%	
Valuation basis	Quoted bid price	
Dividends received	£20,414 (2010: £18,707)	
Year ended 2 October	<b>2010</b>	2009
(2009: 3 October)	<b>£million</b>	£million
Sales	<b>21.71</b>	26.19
EBITA	<b>3.49</b>	4.99
Profit before tax	<b>3.51</b>	5.05
Retained profits	<b>10.00</b>	8.21
Net assets	<b>15.92</b>	14.11

**Pressure Technologies** was admitted to AiM in June 2007. It specialises in the manufacture of ultra-large high pressure cylinders for the offshore oil and gas industry but is increasingly diversifying into other sectors, such as biogas and defence, through acquisitions. The balance sheet remains ungeared with substantial cash available.

## Mattioli Woods plc

Leicester

[www.mattioli-woods.com](http://www.mattioli-woods.com)

Cost	£325,922	
Valuation	£604,200	
Dates of investment	November 2005, February, March, October 2006 and July 2007	
Enterprise value	£42.0 million	
Equity held	1.40%	
Valuation basis	Quoted bid price	
Dividends received	£11,221 (2010: £10,358)	
Year ended 31 May	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>13.68</b>	13.28
EBITA	<b>4.55</b>	4.11
Profit before tax	<b>4.27</b>	3.90
Retained profits	<b>10.34</b>	8.06
Net assets	<b>18.98</b>	16.46

**Mattioli Woods** provides pensions consultancy and administration services primarily to owner-managers, senior executives and professional persons. The Group's key activities include complex pensions consultancy, the provision of Self-Invested Personal Pensions ("SIPP") and Small Self-Administered Pension Schemes ("SSAS"). The company operates a fee-driven model and is well positioned to take advantage of regulatory changes in its market.

# Fund Manager's Review

## K3 Business Technology Group plc

Manchester  
www.k3btg.com

Cost	£402,094
Valuation	£579,200
Date of investment	April 2008
Enterprise value	£61.8 million
Equity held	1.16%
Valuation basis	Quoted bid price
Dividends received	£2,250 (2010: £1,500)

For the 18 months ended 30 June 2010 and the year ended 31 December	2010 £million	2008 £million
Sales	<b>59.78</b>	39.46
EBITA	<b>9.05</b>	7.25
Profit before tax	<b>4.77</b>	4.04
Retained profits	<b>11.33</b>	10.74
Net assets	<b>63.41</b>	31.64

**K3** provides software-based supply chain management solutions to the manufacturing and retail sectors, and its Microsoft-based product range has continued to take market share from more established providers. Growth in internet retailing has helped offset recent weakness in sales to traditional retailers and recurring revenue is an increasingly large proportion of turnover. Recent trading has showed a strong recovery in order levels.

## Lightmain Company Limited

Rotherham  
www.lightmain.co.uk

Cost	£600,000
Valuation	£569,106
Date of investment	March 2010
Enterprise value	£1.1 million
Equity held	30.00%
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£53,670

Year ended 30 September	2010 £million	2009 £million
Retained profits	<b>1.16</b>	0.96
Net assets	<b>1.16</b>	0.96

Lightmain Company Limited has a small company exemption from filing full financial statements at Companies House.

**Lightmain** is a manufacturer and installer of playground equipment and multi-user games areas across the UK. The business has a reputation for quality and an established customer base which provides visibility of forward orders. Although the group has some exposure to local authority spending reviews it also generates significant revenues from other sources.

# Fund Manager's Review

## RMS Group Holdings Limited

Goole

[www.rms-europe.co.uk](http://www.rms-europe.co.uk)

Cost	£540,044	
Valuation	£543,020	
Dates of investment	July 2007, August 2008	
Enterprise value	£15.0 million	
Equity held	8.46%	
Valuation basis	Earnings multiple	
Interest	£65,346 (2010: £97,656)	
Year ended 31 December	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>25.46</b>	24.00
EBITA	<b>2.40</b>	2.13
Profit before tax	<b>0.68</b>	0.70
Retained profits	<b>0.30</b>	0.40
Net assets	<b>5.53</b>	5.43

**RMS** operates from six sites on the Humber estuary handling around 2 million tonnes of cargo a year. RMS has continued to broaden its range of customer services and expand its operations along the Humber estuary. Whilst dependent on the overall level of commodity movements the financing structure of the company has been defensively constructed giving it a competitive advantage over others in its sector. The team have used the tough economic conditions to consolidate their market position and have been able to repay half of the original loan instrument.

## Bluebell Telecom Group Limited

Newcastle

[www.bluebelltelecom.com](http://www.bluebelltelecom.com)

Cost	£500,000	
Valuation	£500,000	
Date of investment	September 2010	
Enterprise value	£9.2 million	
Equity held	6.75%	
Valuation basis	Price of recent investment, reviewed for change in fair value	
Interest	£20,420 (2010: nil)	
The first set of audited financial statements for Bluebell Telecom Group Limited is not yet due.		

**Bluebell** is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's investments were made to assist with the next phase of Bluebell's growth. The business anticipates further acquisition activity. The financial information relates to the results of the non-trading entity that was used to acquire Bluebell Telecom Group Limited.



# Fund Manager's Review

## Harris Hill Holdings Limited

Kingston-Upon-Thames  
www.harrishill.co.uk

Cost	£600,000	
Valuation	£464,552	
Date of investment	June 2007	
Enterprise value	£2.6 million	
Equity held	10.71%	
Valuation basis	Earnings multiple	
Interest	£43,987 (2010: £nil)	
Year ended 31 March	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>3.34</b>	3.89
LBITA	<b>(0.42)</b>	-
Loss before tax	<b>(0.78)</b>	(0.76)
Retained losses	<b>(2.12)</b>	(1.34)
Net liabilities	<b>(1.64)</b>	(0.86)

**Harris Hill** is a niche recruitment business with a strong reputation for providing excellent permanent and temporary recruitment solutions to the charity and not for profit sectors. Whilst market conditions have been difficult over recent months at the level of earnings before interest, tax and amortisation the business has remained profitable and well placed for a recovery as conditions begin to improve.

## Tikit Group plc

London  
www.tikit.com

Cost	£181,159	
Valuation	£403,600	
Dates of investment	June 2001, March and November 2006, January and April 2007	
Enterprise value	£35.3 million	
Equity held	1.07%	
Valuation basis	Quoted bid price	
Dividends received	£11,959 (2010: £11,763)	
Year ended 31 December	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>26.88</b>	25.20
EBITA	<b>3.43</b>	2.90
Profit before tax	<b>2.95</b>	2.47
Retained profits	<b>9.96</b>	8.13
Net assets	<b>16.16</b>	15.18

**Tikit Group** is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company provides a range of document and knowledge management tools to the majority of the top 50 UK legal practices. The business has continued to perform strongly in 2010 with increases in recurring revenues a feature. The business is un-gear'd with net cash in excess of £2.9 million at its year end.

## Primal Pictures Limited

London  
www.primalpictures.com

Cost	£467,792	
Valuation	£350,316	
Date of investment	March 2001	
Enterprise value	£5.1 million	
Equity held	3.90%	
Valuation basis	Earnings multiple	
Year ended 31 December	<b>2009</b>	2008
	<b>£million</b>	£million
Sales	<b>2.54</b>	2.15
EBITA	<b>0.62</b>	0.50
Profit before tax	<b>0.30</b>	0.01
Retained losses	<b>(4.76)</b>	(5.31)
Net liabilities	<b>(1.38)</b>	(1.93)

**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 has significantly expanded its business development activities to a range of healthcare and education markets, also developing recurring licence revenues from reseller partners.

# Fund Manager's Review

## Darwin Rhodes Group Limited

London

[www.darwinrhodes.com](http://www.darwinrhodes.com)

Cost	£443,925	
Valuation	£332,881	
Date of investment	April 2008	
Enterprise value	£5.1 million	
Equity held	6.06%	
Valuation basis	Earnings multiple	
Year ended 31 March	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>4.95</b>	8.36
LBITA	<b>(0.59)</b>	(1.22)
Loss before tax	<b>(0.60)</b>	(1.37)
Retained losses	<b>(1.89)</b>	(1.32)
Net assets	<b>3.19</b>	3.85

**Darwin Rhodes** is an international recruitment firm specialising in the actuarial, insurance and compliance markets. Whilst there have been significant pressures on the financial services sector, the absence of financial gearing and breadth of Darwin Rhodes' activities both in terms of sectors and geographic diversity have assisted in managing these pressures. The business has no debt and market conditions in recent months have improved significantly.

## EKF Diagnostics Holdings plc

London

[www.ekf-diagnostic.de](http://www.ekf-diagnostic.de)

Cost	£197,500	
Valuation	£289,500	
Date of investment	July 2010	
Enterprise value	£35.2 million	
Equity held	0.78%	
Valuation basis	Quoted bid price	
Year ended 31 December	<b>2009</b>	2008
	<b>£million</b>	£million
Sales	-	0.02
EBITA	<b>4.60</b>	3.50
Loss before tax	<b>(0.01)</b>	(0.24)
Retained profits	<b>0.93</b>	0.90
Net assets	<b>1.39</b>	1.36

**EKF** is a provider of a wide range of diagnostic needs in clinical care, blood donor services and dialysis centres, recreation institutes, sports medicine and industrial applications. EKF's name consists of the first three letters of German words, Entwicklung (development), Konstruktion (construction) and Fertigung (production), which are the main business divisions.

## Woodspeen Training plc

London

[www.woodspeentraining.com](http://www.woodspeentraining.com)

Cost	£249,966	
Valuation	£249,966	
Date of investment	December 2010	
Enterprise value	£10.6 million	
Equity held	3.9%	
Valuation basis	Price of recent investment, reviewed for change in fair value	
Year ended 31 December	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>5.11</b>	1.97
EBITA	<b>0.64</b>	0.03
Profit before tax	<b>0.62</b>	0.05
Retained profits	<b>0.44</b>	0.01
Net assets	<b>4.74</b>	3.18

**Woodspeen Training** was incorporated in November 2007 with the aim of creating a substantial UK vocational training business principally by acquiring existing businesses providing Government sponsored and/or privately funded vocational training. Woodspeen expects "Apprenticeships and "Foundation Learning" to be a major growth area in the future as the school leaving age is raised. 16-18 Apprenticeships will be an alternative to those children, at the age of 16, who do not wish to continue in formal academic education.

# Fund Manager's Review

## Cambridge Cognition Limited

Cambridge  
www.camcog.com

Cost	£325,000	
Valuation	£221,483	
Date of investment	May 2002	
Enterprise value	£6.2 million	
Equity held	3.86%	
Valuation basis	Price of recent investment, reviewed for change in fair value	
Year ended 31 December	<b>2009</b>	2008
	<b>£million</b>	£million
Sales	<b>3.31</b>	2.14
LBITA	<b>(0.34)</b>	(0.99)
Loss before tax	<b>(0.52)</b>	(1.09)
Retained losses	<b>(6.91)</b>	(6.39)
Net liabilities	<b>(0.80)</b>	(0.28)

**Cambridge Cognition** is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental conditions. It raised £1.5 million in January 2008, from a range of investors, to assist with commercialising its intellectual property. The company has restructured and trading is much improved in recent months.

## Straight plc

Leeds  
www.straight.co.uk

Cost	£225,811	
Valuation	£211,755	
Dates of investment	February 2004, January, March and November 2005 and May 2006	
Enterprise value	£15.2 million	
Equity held	1.84%	
Valuation basis	Quoted bid price	
Dividends received	£4,991 (2010: £13,994)	
Year ended 31 December	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>30.66</b>	28.32
EBITA	<b>2.07</b>	1.65
Profit before tax	<b>1.47</b>	1.56
Retained profits	<b>2.77</b>	2.87
Net assets	<b>10.92</b>	9.70

**Straight** is a provider of environmental products and services and is the UK's leading supplier of recycling containers. The group has recently expanded through acquisitions in its supply chain which it believes strengthens its position in the UK market. Results continue to demonstrate recovery.

## Patsystems plc

London  
www.patsystems.com

Cost	£222,002	
Valuation	£172,400	
Dates of investment	October 2007, March 2008	
Enterprise value	£30.8 million	
Equity held	0.44%	
Valuation basis	Quoted bid price	
Dividends received	£1,642 (2010: £5,435)	
Year ended 31 December	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>22.11</b>	22.10
EBITA	<b>3.90</b>	5.24
Profit before tax	<b>3.29</b>	4.49
Retained losses	<b>(1.71)</b>	(3.70)
Net assets	<b>25.66</b>	23.51

The holding in **Patsystems** has arisen as a result of deferred consideration payable in shares on the acquisition of Tamesis in August 2005. Patsystems is listed on AiM and develops trading and risk management systems for derivatives traders. It sells its products to all major financial services and has delivered strong growth particularly with recent further contract wins in Asia. The business has approximately £9 million cash and no borrowings.

# Fund Manager's Review

## Brulines plc

Stockton-on-Tees  
www.brulines.com

Cost	£162,530	
Valuation	£121,500	
Dates of investment	October 2006 and July 07	
Enterprise value	£22.6 million	
Equity held	0.47%	
Valuation basis	Quoted bid price	
Dividends received	£5,165 (2010: £10,402)	
Year ended 31 March	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>19.83</b>	19.07
EBITA	<b>4.50</b>	5.02
Profit before tax	<b>4.04</b>	4.62
Retained profits	<b>7.64</b>	6.50
Net assets	<b>21.04</b>	20.06

**Brulines** is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licensed on-trade. Brulines has consolidated its market leading position and continues to seek to expand its service and product offering. Dividend yield remains strong but the pub chains continue to struggle. Diversifying into related markets, such as petrol forecourts, has been an increasing focus.

## Ellfin Home Care Limited

Oldham  
www.ablecare.co.uk

Cost	£823,167	
Valuation	£65,341	
Dates of investment	December 2007, October 2008 and June 2010.	
Enterprise value	£1.4 million	
Equity held	16.02%	
Valuation basis	Earnings multiple	
Dividends received	£nil (2010: £2,233)	
Interest	£(42,870) (2010: £71,543)	
12 months ended 31 October	<b>2009</b>	2008
	<b>£million</b>	£million
Sales	<b>4.36</b>	3.06
EBITA	<b>0.29</b>	0.37
(loss) profit before tax	<b>(0.02)</b>	0.16
Retained losses	<b>(0.09)</b>	(0.01)
Net assets	<b>0.48</b>	0.56

**Ellfin Home Care** is a domiciliary care business providing care in the home services to both public and private clients. The company was established as a vehicle to acquire a number of home care businesses forming a group based in the North West of England over a five year period. To date two acquisitions have been completed.

# Fund Manager's Review

## Belgravium Technologies plc

Bradford

[www.belgravium.com](http://www.belgravium.com)

Cost	£200,000	
Valuation	£60,700	
Date of investment	October 2005	
Enterprise value	£5.5 million	
Equity held	1.42%	
Valuation basis	Quoted bid price	
Dividends received	£nil (2010: £nil)	
Year ended 31 December	<b>2010</b>	2009
	<b>£million</b>	£million
Sales	<b>8.20</b>	8.29
EBITA	<b>0.63</b>	0.62
Profit before tax	<b>0.43</b>	0.41
Retained losses	<b>(0.06)</b>	(0.44)
Net assets	<b>10.02</b>	9.63

**Belgravium** is a computer design and manufacturing company, specialising in mobile computers for the logistics, fuel and aviation markets. The Company invested to support the acquisition of the complementary Touchstar Technologies. The core markets in aviation have been extremely challenging for some time and new models have been slow to establish.

## Denison Mayes Group Limited

Leeds

[www.denisonmayesgroup.com](http://www.denisonmayesgroup.com)

Cost	£5,000
Valuation	£5,000
Date of investment	August 1998
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£354 (2010: £825)
Denison Mayes Group Limited has a small company exemption from filing full audited financial statements at Companies House	

**Denison Mayes'** primary activity is the servicing and calibration of a wide range of materials testing equipment used in the engineering and academic market. An agreement was reached to sell the equity stake in this company back to management in September 2001. Your Company has a residual loan of £5,000 remaining which is due to be repaid in full by 30 June 2011.

# Fund Manager's Review

## Introduction

This year has certainly seen improved market conditions for much of the portfolio although it is also fair to say that significant economic uncertainty remains. In spite of this the year has seen the strongest overall return on opening value since the Company was first established in 1996 with strong value growth not only from GO Outdoors Limited but also several other portfolio businesses.

GO Outdoors Limited continued its store roll out programme, now having twenty nine stores across the UK and continuing to capitalise on weak property markets to secure good lease terms on new facilities. Several cyclical portfolio businesses saw a strong improvement in profitability following tough actions to improve efficiencies, including port operator RMS Group Holdings Limited, kitchen manufacturer Harvey Jones Limited and recruitment businesses Harris Hill Limited and Darwin Rhodes Limited. Further profit growth was seen at specialist catering group Waterfall Services Limited and at security software provider Deep-Secure Ltd. Cambridge Cognition Limited, a manufacturer of diagnostic products for patients with brain disorders, is delivering a strong recovery after struggling for some years to find a successful route to market. Several of the quoted investment portfolio also benefited from the improved market conditions.

A further investment was made into Fishawack Limited to support the second acquisition of a UK competitor as part of the strategy to build a diversified international business. The investment into President Engineering Group Limited enabled the Company to back the existing team to purchase this manufacturer of branded engineering products to continue their international expansion plans. The investment into Bluebell Telecom Group Limited was to fund a proven team to make a further acquisition in the consolidating businesses telecoms sector. Two quoted investments were made into EKF Diagnostics Holdings plc and Woodspeen Training plc with a £53,000 profit already having been generated from a partial disposal of the investment in EKF Diagnostics Holdings plc.

There were no significant realisations during the period but the improved trading position of RMS Group Holdings Limited enabled a partial disposal via a refinancing of the institutional loans which generated £0.5 million of cash and £0.1 million realised profit.

Cash and gilt investments at 31 March 2011 were £11.65 million representing 28.3% of net assets. This compares to £11.56 million and 39.9% at 31 March 2010. A further £1.82 million was received by the Company after the year end in respect of the successful fundraising under the recent linked offer with British Smaller Companies VCT2 plc, making a total of £4.41 million gross proceeds from this fund raising, providing additional liquidity and the Company remains in a strong cash position to meet anticipated future investment opportunities.

## Portfolio Performance

Overall this year has seen strong progress made across the whole portfolio. The macroeconomic picture has been patchy with a mixture of stuttering improvement and sporadic country-specific debt crises. This continues to generate uncertainty over the future and UK GDP growth is widely forecast to be low for some years to come. However, for investors capable of taking medium term views over 5-10 years, these conditions should represent a backdrop for some good investment opportunities. Having taken tough steps to reduce costs and cut unprofitable activities over recent years many of the portfolio

businesses saw improved revenues during the year which, combined with improved efficiency levels, resulted in good profit improvements. The portfolio remains well funded and positioned for further value growth as economic conditions slowly improve and current strategies are implemented to capitalise on the changing market conditions.

Overall, the quoted and unquoted portfolio increased by £12.69 million to a total of £29.95 million in March 2011 (£17.26 million in March 2010). Netting off the new investment of £2.96 million and realised proceeds of £0.83 million, the net portfolio value increase over the year was £10.37 million. This breaks down into an increase of £10.371 million in the unquoted portfolio and an increase of £0.003 million in the quoted portfolio.

Quoted and unquoted portfolio £000	
Opening value	17,256
Additions	2,961
Valuation changes	
– Unquoted	10,371
– Quoted	3
Value sold	(645)
<b>31 March 2011</b>	<b>29,946</b>

By far the biggest valuation movement in the year was from the investment in GO Outdoors Limited, where growth of £8.68 million was experienced following nine new store openings, a continued improvement in profits and a change in valuation in response to approaches from trade and financial investors. An investment of £28 million was made by 3i plc for a minority shareholding to fund a continuation of the store rollout programmes and facilitate a partial realisation of value for the shareholders. This completed after the end of this reporting period with the Company realising £6.54 million of cash proceeds and retaining a residual 14.09% shareholding.

Other significant value movements within the unquoted portfolio were seen at port operator RMS Group Holdings Limited (up £0.54 million), recruitment specialists Harris Hill Limited (up £0.36 million) and Darwin Rhodes Limited (up £0.23 million), kitchen retailer Harvey Jones Holdings Limited (up £0.28 million), medical diagnostics provider Cambridge Cognition Limited (up £0.22 million) and catering group Waterfall Services Limited (up £0.20 million). These were partially offset by a fall in value of domiciliary care provider Ellfin Home Care Limited (down £0.20 million) following a change of strategy during the year. It is particularly encouraging to see several of the cyclical businesses seeing profit improvement and we would expect this to continue as market conditions improve further.

The quoted portfolio also benefited from improved market confidence. Key unrealised improvements were achieved at coal services and logistics group Hargreaves Services plc (up £0.26 million), supply chain software provider K3 Business Technology Group plc (up £0.20 million), business software service provider Tikit Group plc (up £0.17 million) and the new investment into medical diagnostics group EKF Diagnostics Holdings plc (up £0.09 million net of £0.05 million realised profit).

# Fund Manager's Review

In accordance with IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. This indicated that a 10% decrease in the discounts applied in the valuations performed would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £1,281,000. A change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by £1,370,000. Further information is given in note 19a to the Financial Statements on page 56.

## Investment Activity

An increase in investment activity levels has been experienced, and it is hoped that this will continue in the year ahead as economic conditions stabilise further. During the year investments were made in seven companies:

	£000
<i>New Investments</i>	
Bluebell Telecom Group Limited	500
President Engineering Group Limited	1,000
EKF Diagnostics Holdings plc	250
Woodspeen Training plc	250
<i>Follow-on Investments</i>	
Fishawack Limited	157
Ellfin Home Care Limited	54
Adex Bridge Investments Limited	750
<b>Total</b>	<b>2,961</b>

During the year new investments were made in four businesses. In July 2010 the Company invested £0.25 million into AiM-listed EKF Diagnostics Holdings plc, backing a proven management team to lead the commercialisation of a number of proven diagnostic technologies. In September 2010, £0.5 million was invested, alongside British Smaller Companies VCT2 plc, into Bluebell Telecom Group Limited to help fund the acquisition of Call Stream Limited. Bluebell Telecom Group Limited is a telecommunications service provider to UK businesses seeking to grow its aggregated service offering through a series of targeted acquisitions. In September 2010 the Company invested £1.0 million into President Engineering Group Limited, backing the existing management team in a £3.0 million buyout of this manufacturer of niche engineering products for the mining and oil and gas sectors. In December 2010 the Company invested £0.25 million into PLUS-listed vocational training provider Woodspeen Training plc, which has raised £2.6 million to lead a consolidation of this fragmented market.

The Company also made three further investments into the unquoted portfolio. In May 2010 £157,000 was invested in medical communications group Fishawack Limited to help fund the acquisition of a UK competitor to broaden the customer base and leverage operational synergies. In June 2010 a further £54,000 investment was made into Ellfin Home Care Limited as part of a £250,000 working capital round following management changes. In March 2011 a further investment of £750,000 was made into Adex Bridge Investments Limited, the investment company seeking turnaround opportunities focused in the Midlands region. We will continue to invest into the portfolio where we see good opportunities for value growth, either via the provision of working capital, funding portfolio businesses to make acquisitions or enabling a restructuring of existing shareholdings.

## Realisations

There have not been any significant realisation events during the year as generally market conditions have not provided sufficient favourable opportunities to maximise the potential value of investee businesses. Overall £831,000 of capital proceeds was realised, including a profit of £186,000 mainly via a number of opportunistic partial realisations during the year. The £6.54 million of realised cash proceeds from GO Outdoors Limited completed just after the end of this reporting period.

In August 2010, HSBC provided £2.50 million of new facilities in a refinancing of RMS Group Holdings Limited following improved trading results which resulted in £477,000 of capital proceeds to the Company including a profit of £94,000. In July 2010 £31,000 of capital proceeds were received from Primal Pictures Limited from a redemption of preference shares using free cash following recent profits. We also took the opportunity to realise part of the Company's investments in three of the quoted portfolio investments; EKF Diagnostics Holdings plc (£105,000 realised including £53,000 profit), Tikit Group plc (£95,000 realised including £37,000 profit) and Straight plc (£74,000 realised including £3,000 profit).

In December 2010, the Company sold its remaining investment in Freshroast Coffee Co. Limited back to the management team for its carrying value of £30,000 representing £24,000 uplift over original cost.

## Performance History

The chart in the Financial Summary on page 4 shows how the Total Return of the Company, calculated by reference to the Net Asset Value per share plus cumulative dividends paid per share has developed over the years since inception.

## Summary and Outlook

The year under review has seen a gradual improvement in market conditions experienced by the portfolio companies although significant economic uncertainty still remains. Following tough actions in recent years, many of the portfolio companies have been well positioned to deliver improved results and we would hope to see further improvements in profits and value as economic conditions improve further.

We are optimistic that the year ahead will see a continuation of the improving market conditions which may at least lead to a degree of economic stability and provide more certainty. The Company is well placed to take advantage of the current market conditions.

With a gradually increasing investment rate and limited disposals, the Company's cash reserves have been boosted further by £2.59 million of gross proceeds as at the year end from the recent linked fund raising with British Smaller Companies VCT2 plc, with a further £1.82 million of gross proceeds received post year end. After taking account of the proposed dividend of 3.0p per share this leaves the Company with strong cash reserves and well placed to support the portfolio, take advantage of good investment opportunities and continue to pay an attractive dividend stream.

**David Hall**  
YFM Private Equity Limited  
13 June 2011

# Valuation of Investments

## Initial Measurement

Financial assets are initially measured at fair value. The best estimate of the initial 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 International Private Equity and Venture Capital (IPEVC) Valuation Guidelines ("the Guidelines") identify six of the most widely used valuation methodologies for unquoted investments. 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, reviewed for change in fair value.** 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 adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply a change in the fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.
- **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. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.
- **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 changes to fair value.

Where an independent third party professional 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.

Unquoted investments held in the form of loan investments are valued at fair value using the appropriate methodologies as used for valuing equity investments, primarily being price of recent investment and discounted cash flows from the investment.

## Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. Where the Company judges that the level of trading does not meet these requirements an illiquidity discount is applied.



# Directors

Name	Responsibilities
<b>Helen Sinclair</b> Chairman (45)	Helen has an MA in Economics from Cambridge University and an MBA from INSEAD Business School. After working in investment banking Helen spent nearly 8 years at 3i plc focusing on MBO and growth capital investments. She later co-founded Matrix Private Equity raising a successful technology fund, the Matrix Venture Fund VCT plc. She subsequently became managing director of Matrix Private Equity before moving to take on a portfolio of non-executive director roles in 2005. She is currently a non-executive director of The Income & Growth VCT plc, Matrix Income & Growth 4 VCT plc, Spark Ventures plc and Framlington AiM VCT.
<b>Philip Simon Cammerman</b> (69)	Philip has over 20 years of industrial experience in engineering and technology orientated industries and has worked in both the USA and the UK. He has spent the last 26 years in the venture capital industry and was Chairman of the Private Equity and Venture Finance arms of YFM Equity Partners (formerly YFM Group Limited) until he retired in April 2008. 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 Pressure Technologies plc and Hargreave Hale AiM VCT 2 plc. He has been a director of the Company since its establishment as a venture capital trust.
<b>Edward Buchan</b> (59)	Edward is a Fellow of the Institute of Chartered Accountants in England and Wales, starting his career with Deloitte before moving to Hill Samuel Bank Limited where he became Head of Corporate Finance and a member of the Bank Executive Committee. He subsequently joined Close Brothers Corporate Finance Limited and then WestLB Panmure, specialising in the transport and logistics industry sectors. He is currently managing director, Corporate Finance at LCF Edmond de Rothschild Securities and is a non-executive director of Wallem Group Limited and Downing Absolute Income VCT 1 plc.

## Secretary and Registered Office

**Clare Mackintosh LL.B**  
Saint Martins House  
210-212 Chapeltown Road  
Leeds  
LS7 4HZ

**Registered No: 3134749**

# Directors' Report

For the year ended 31 March 2011

The directors present their report and audited financial statements of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2011.

## 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 Company's activities over the past 12 months and the outlook for future developments are included within the Chairman's Statement and Fund Manager's Review. The Company, in common with the venture capital trust industry, does not have any employees apart from the directors who served during the year. The business and administrative duties of the Company are contracted to the Fund Manager, 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 Limited 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** – the quality of enquiries, investments, investee company management teams and monitoring and the risk of not identifying investee underperformance 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 gains. Any breach of these rules may lead to the Company losing its approval as a VCT, with qualifying Shareholders who have not held their shares for the designated holding period having to repay the 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 below for more detail.

**Regulatory** – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority and International Financial Reporting 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 Fund Manager'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, PLUS and unquoted companies, by their nature, involve a higher degree of risk than investment in companies trading 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 or PLUS 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 policy, regular review of performance and 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 Financial Reporting Council – Revised Internal Control: Guidance for Directors on the Combined Code. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on page 33 and further information on exposure to risks associated with financial instruments is given in note 19 of the Financial Statements.

## 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 dividends paid to Shareholders from the date the Company was launched to the current reporting date, inclusive of any recoverable tax credits, to the Net Asset Value at that date.

# Directors' Report

The chart showing the Total Return of the Company is included within the financial summary on page 4. An additional table analysing Total Return by each fundraising of the Company has been added and can be found on page 5.

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. 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 ordinary 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.

### Income Test

The Company's income in the period must be derived wholly or mainly from shares or securities. The Company complied with this test in the period, with 98.8% (2010: 95.3%) of income being derived from such sources.

### Retained Income Test

The Company must not retain more than 15% of its income from shares and securities. The Company complied with this test in the period, with 100% (2010: 100%) of income being distributed in the period.

### Qualifying Holdings Test

At least 70% by value of the Company's investments must be represented throughout the period by shares or securities comprised in qualifying holdings of the Company. The Company complied with this test with 73.0% (2010: 76.6%) of value being in qualifying holdings.

### Eligible Shares Test

At least 30% of the Company's qualifying holdings must be represented throughout the period by holdings of non-preferential ordinary shares. The Company complied with this test with 50.6% (2010: 53.4%) of qualifying holdings being held in such shares.

### Maximum Single Investment Test

The value of any one investment has not, at any time in the period, represented more than 15% of the Company's total investment value. This is calculated at the time of investment and further additions and therefore cannot be breached passively. The Company has complied with this test with the highest such value being 5.1% (2010: 5.5%).

The Board received regular reports on compliance with the VCT legislative tests from YFM Private Equity Limited. In addition the Board receives formal reports from its VCT Status Adviser, PricewaterhouseCoopers LLP, twice a year.

The Board can confirm that during the period all of the VCT legislative tests have been met.

## Incentive Fee

Under the Incentive Agreement dated 7 July 2009 ("the Incentive Agreement") the Fund Manager will receive an incentive payment equal to 20% of the amount by which dividends paid in the relevant accounting period exceed 4.0 pence per share (increased in line with RPI) once cumulative dividends of 10.0 pence per share from 1 April 2009 have been paid. This threshold has been met in the current year. Further details can be found in note 3 of the Financial Statements.

## Results and Dividends

The Statement of Comprehensive Income for the year is set out on page 39. The profit after taxation for the year amounted to £10,373,000 (2010: £4,202,000).

The directors recommend the payment of a final dividend of 3.0 pence per Ordinary share (2010: 3.0 pence) which will be paid on 22 August 2011 to Shareholders on the register on 22 July 2011. A resolution to this effect will be proposed at the Annual General Meeting to be held on 29 July 2011.

The Net Asset Value per Ordinary share at 31 March 2011 was 120.0 pence (2010: 94.4 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 41.

## Share Capital

As shown in note 11 of the Financial Statements, the Company has only one class of Ordinary shares.

## Issue and Buy-Back of Shares

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 during the year, under existing authority granted by the Shareholders, Ordinary shares of 10 pence each in the market (as disclosed in the table below) for aggregate consideration amounting to £690,723.

Date	Number of Ordinary shares of 10p bought-back	% of issued share capital at that date	Consideration paid per share
3 September 2010	260,000	0.79%	78.0p
10 December 2010	218,448	0.67%	82.3p
31 March 2011	300,000	0.87%	102.8p

# Directors' Report

Under the existing authority, which expires on 29 July 2011, the Company has the power to purchase shares up to 14.99% of the Company's issued Ordinary share capital as at 31 March 2010. This authority is recommended for renewal at the Annual General Meeting.

The directors have unconditional authority to allot, grant rights to subscribe for or to convert security into shares in the Company until 11 April 2012 in connection with the following:

- the linked offer with British Smaller Companies VCT2 plc (which closed on 4 May 2011), up to an aggregate nominal amount of the £900,000;
- an offer of shares by the way of a rights issue;
- an allotment of shares for cash up to an aggregate nominal amount of 10% of the issued Ordinary share capital of the Company immediately following the final close of the linked offer on 4 May 2011.

In addition, the directors have a separate unconditional authority to allot shares in the Company in connection with the Company's dividend reinvestment scheme until 11 January 2016.

In order to ensure the directors retain the authority to allot shares in the Company (other than pursuant to its dividend reinvestment scheme) until the annual general meeting in 2012, the authority to allot shares for cash up to an aggregate nominal amount of £378,831 representing approximately 10% of the issued share capital of the Company (as at the date of the Notice of Annual General Meeting) is recommended for renewal at the Annual General Meeting (with all existing authorities to allot, other than the existing authority to allot pursuant to the Company's dividend reinvestment scheme, being revoked).

In the year the Company allotted 2,048,298 new Ordinary shares pursuant to the offers for subscription for the tax years 2009/2010 and 2010/2011, 2,025,838 new Ordinary shares in respect of the linked offer with British Smaller Companies VCT2 plc and 272,598 new Ordinary shares in respect of its dividend reinvestment scheme. Subsequent to the year end the Company issued 1,421,329 Ordinary shares at a price of 128 pence per share under the linked offer. The total shares issued under the linked offer was 3,447,167, raising gross funds of £4.41 million. Further information is given on the next page under the heading "Events after the Balance Sheet Date".

## Capital Disclosures

The following information has been disclosed in accordance with Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008:

- the Company's capital structure is summarised in note 11 and note 20 of the Financial Statements. Each Ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there are no securities carrying special rights with regard to the control of the Company;

- the Company does not have an employee share scheme;
- the rules concerning the appointment and replacement of directors, amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- with the exception of the Incentive Agreement, more details of which can be found in note 3 of the Financial Statements, there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- there are no agreements between the Company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

## 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 20 (2010: 23).

## Fund Manager

The Board is considering a European Union directive concerning hedge fund and private equity fund managers which was approved by the European Parliament in November 2010 and adopted by the Council of the European Union in May 2011. Further secondary legislation is to be introduced over a two year transition period and insofar as the proposals affect the Company the directors will report further once the full impact of the directive becomes clear.

## Environment

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment. The management and administration of the Company is undertaken by the Fund Manager. YFM Private Equity Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption. Given the size and nature of the Company's activities and the fact that it has no employees, the Board considers there is limited scope to develop and implement social and community policies.

## Directors and their Interests

The directors of the Company at 31 March 2011, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 36 to 37.

## Substantial Shareholdings

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.

# Directors' Report

## Independent Auditor

Grant Thornton UK LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

## Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 59 of these Financial Statements.

The Ordinary business of the meeting includes a resolution (Resolution 8) to be proposed to authorise the directors to issue and allot new shares up to an aggregate nominal amount of £378,831 representing approximately 10% of the share capital of the Company in issue at the date of the Notice of Annual General Meeting. The directors believe this to be in the Company's interest as from time to time the Company is approached by persons interested in purchasing new shares and if so authorised the directors will be able to respond positively to such applications.

As Special business, a special resolution (Resolution 9) is proposed to empower the directors to allot shares up to an aggregate nominal amount of 10% of the issued share capital of the Company as at the date of the Notice of Annual General Meeting, without regard to any rights of the pre-emption on the part of the existing Shareholders.

In addition, a special resolution is proposed to renew the existing share buy-back authority which expires on 29 July 2011 (shares purchased under this authority may be placed in Treasury) and the authority for this is contained in Resolution 10.

## VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements for 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 Fund Manager to ensure legislative requirements are properly assessed.

## Events after the Balance Sheet Date

The Company has appointed Clare Mackintosh LL.B. as Company Secretary of the Company on 1 April 2011 to replace James Gervasio who retired from the position with effect from 1 April 2011.

In April 2011, the Company's investment in GO Outdoors Limited was partially realised for proceeds of £6.54 million.

On 5 April 2011 and on 4 May 2011 the Company allotted 1,038,195 and 383,134 Ordinary shares of 10 pence each at a price of 128 pence per Ordinary share pursuant to the linked offer for subscription made by the Company and British Smaller Companies VCT2 plc ("BSC2"). In total the Company raised gross proceeds of £4.41 million under the linked offer, which closed on 4 May 2011.

On 28 April 2011 the Company completed a further investment of £0.044 million into Darwin Rhodes Group Limited.

On 13 May 2011 the Company realised 9,350 shares in Hargreaves Services plc generating proceeds of £0.09 million.

On 18 May 2011 the Board approved a further investment in Fishawack Limited up to £0.12 million in support of a further acquisition.

On 18 May 2011 the Board approved a further investment of up to £150,000 into EKF Diagnostics Holdings plc as part of a placing to make a further acquisition.

## 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 (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they 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 IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 keeping adequate accounting records that 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 2006. 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.yfmepl.com](http://www.yfmepl.com), which is a website maintained by the Company's Fund Manager. 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.

# Directors' Report

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 of the directors has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the business review included within the Chairman's Statement, Fund Manager's Review and Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

## 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 Combined Code on Corporate Governance, June 2008 (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, except for those provisions relating to the appointment of a recognised senior independent non-executive director and those relating to the establishment of an independent Remuneration Committee, the Chairman acting as chairman of the Audit Committee, and the presumption concerning her independence.

### Role of the Board

A management agreement between the Company and YFM Private Equity Limited sets out the matters over which the Fund Manager 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 the 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 quarterly 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 three Non-Executive Directors, all of whom are regarded by the Board as independent and also as independent of the Company's Fund Manager, including the Chairman. The independence of the Chairman was assessed upon her 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 the Company are satisfied that Helen Sinclair fulfils the criteria for independence as a 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 25.

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 requirements 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.

# Directors' Report

The Board seeks to maintain a balance of skills and the directors are satisfied that as currently composed the balance of experience and skills of the individual directors is appropriate for the Company in particular with regard to investment appraisal and investment risk management. Individual biographies are at page 25 of this report.

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 Board considered the implications of new Listing Rules concerning directors' independence which took effect in September 2010. To ensure compliance with these rules Mr Robert Martin Pettigrew and Mr Richard Last resigned as directors on 21 September 2010. Mr Edward Buchan was appointed a Non-Executive Director on 22 September 2010 in their place.

In determining the appointment of C W E R Buchan, the Board considered a number of criteria including the ability to i) suggest, advise on and monitor matters relating to the investment strategy and performance of the Company and the Fund Manager; ii) provide entrepreneurial leadership within a framework of prudent and effective controls which enable risk to be assessed and managed; and iii) set the Company's strategic aims, ensuring that the Company has sufficient resources to meet its objectives and review management performance.

The directors recommend the re-election of Ms H Sinclair who retires by rotation, and Mr P S Cammerman who retires by virtue of service for more than 9 years, because of their commitment, experience and contribution to the Company. A resolution to elect Mr C W E R Buchan is also proposed at this year's Annual General Meeting.

## 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 Committee meetings attended by each director.

During the year there were five formal Board meetings, two Audit Committee meetings, five Allotment Committee meetings, one Nomination Committee meeting, two Investment Committee meetings and one General meeting. The directors met via telephone conference on five other occasions.

Director	H Sinclair	P S Cammerman	C W E R Buchan (appointed 22.9.10)	R Last (resigned 21.9.10)	R M Pettigrew (resigned 21.9.10)
Board meetings attended	5	5	3	2	2
Audit Committee meetings attended	2	2	1	1	1
Allotment Committee meetings attended	5	4	-	-	-
Nominations Committee meetings attended	1	1	-	-	-
Investment Committee meetings attended	2	2	1	-	-
General meetings attended	1	1	-	1	-
Telephone conference	3	2	1	4	4

## Training and Appraisal

On appointment, the Fund Manager 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.

The Chairman has confirmed that the performance of the directors being proposed for election and re-election continues to be effective and that they continue to show commitment to the role. The independent directors have similarly appraised the performance of the Chairman. They considered that the performance of Ms H Sinclair continues to be effective and that she continues to demonstrate commitment to the role.

# Directors' Report

## Remuneration Committee

A Remuneration Committee was established during the year. The Committee consists of three directors who are considered by the Board to be independent of the Fund Manager, this currently being Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan. The Chairman of the Board acts as the Chairman of the Remuneration Committee. The Committee meets at least once a year. The Remuneration Committee reviews the Company's remuneration policy so as to determine and agree the remuneration to be paid to each director of the Company. It is responsible for the production of the Director's Remuneration Report which may be found on pages 36 and 37.

## Audit Committee

The Audit Committee consists of three directors who are considered by the Board to be independent of the Fund Manager, this currently being Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan. The Committee meets at least twice each year. Following his appointment to the Board, Edward Buchan was appointed Chairman of the Audit Committee. Prior to Edward's appointment, the directors considered that it was appropriate that the Chairman of the Committee should be Helen Sinclair. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

The Audit Committee reviews the actions and judgements 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 Fund Manager'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 Audit 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 that the independence and objectivity of the auditors have not been impaired or compromised by the non-audit work performed during the year.

As a consequence of these activities the Audit Committee recommends the reappointment of Grant Thornton UK LLP as independent auditor at the Annual General Meeting.

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 Annual General Meeting.

## Investment Committee

An Investment Committee was established in September 2010. The Committee currently consists of Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan. The Chairman of the Committee is Mr P S Cammerman.

The Investment Committee is authorised to make investment decisions (including investment, further investment, variation and realisation decisions) on behalf of the Board.

## Nomination Committee

The Company has a Nomination Committee which consists of three directors who are considered by the Board to be independent of the Fund Manager. The Chairman of the Board acts as Chairman of the Committee.

In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

## Allotment Committee

The Company has an Allotment Committee which consists of the directors who are considered by the Board to be independent of the Fund Manager. The quorum for Committee meetings is two directors, unless otherwise determined by the Board, with the Company Secretary also in attendance.

The Committee considers and, if appropriate, authorises the allotment of shares. The Committee ensures that the total number of shares to be issued does not exceed the authority given by Shareholders.

## 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 Fund Manager are available in person to meet with and answer Shareholders' questions. In addition, representatives of the Fund Manager and the Board periodically hold Shareholder workshops which review the Company's performance and industry developments. During the year, the Company's Fund Manager has 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 25.



# Directors' Report

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 25. 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 Fund Manager 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 Fund Manager;
- 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 Fund Manager and the Board approves annual budgets prepared by the Fund Manager; and
- the Board receives copies of the Company's management accounts on a regular basis showing comparisons with budget. These include a report by the Fund Manager with a review of performance. Additional information is supplied on request.

The Board confirms the procedures to implement the guidance, Financial Reporting Council – Revised Internal Control: Guidance for Directors on the Combined Code ("the Guidance"), were in place throughout the year ended 31 March 2011 and up to the date of this report.

The Board acknowledges that it is responsible for overseeing 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 ongoing 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 Guidance.

In light of the implementation of the Bribery Act 2010 with effect from 1 July 2011, the Board is adopting a policy to ensure adherence to the requirements of the new legislation.

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

## Corporate Governance and Voting Policy in relation to Investee Companies

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 its clients invest. 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 Company's business activities, liquidity position and factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Fund Manager's Review. In addition notes 19 and 20 of the Financial Statements describe the Company's objectives, policies and processes for managing capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit and liquidity risk.

The Company has considerable financial resources, a carefully controlled cost base and investments across various industry sectors. In addition, following the year end the Company further increased its investment capacity via the linked offer with British Smaller Companies VCT2 plc and realised part of its investment in GO Outdoors Limited for proceeds of £6.54 million. The directors believe these factors have placed the Company in a strong position to take advantage of new investment opportunities despite the uncertain economic outlook.

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

# Directors' Report

## 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 Company will invest in UK businesses across a range of sectors including, but not limited to, Industrial, Healthcare, Software and Consumer Products in VCT qualifying and AiM and PLUS traded securities which, under the legislation governing VCTs, requires that at least 70% by value of its holdings must be in 'qualifying holdings'. The maximum by value that the Company may hold in a single investment is 15% at the time of initial or subsequent investment. Although the majority of investments will be in equities, in appropriate circumstances, preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

The Company funds its investment programme out of its own resources and has no borrowing facilities for this purpose. The maximum that the Company may invest in any holding in any tax year is limited to £1 million and the average size of the Company's qualifying investment is £0.49 million (2010: £0.39 million). Details of the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this report.

The Fund Manager, 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 reserves to itself the taking of all investment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AiM and where the decision is required urgently, in which case the Chairman may act in consultation with the Fund Manager. The Board also reserves to itself the taking of all divestment decisions save as regards the realisation of the Company's holding in AiM portfolio companies for which the Board has developed a strategy with the objective of maximising the opportunities to achieve profitable realisations whilst at the same time maintaining balance in the overall composition of the AiM portfolio. The strategy is operated by the Fund Manager.

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.

In the opinion of the directors the continuing appointment of YFM Private Equity Limited as Fund Manager is in the interests of the Shareholders as a whole in view of its experience in managing venture capital trusts and in making and exiting investments of the kind falling within the Company's investment policy.

Prior to the investment of funds in suitable qualifying companies, the liquid assets of the Company are primarily 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.

The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in an AAA rated liquidity fund, which invests in a pool of highly rated money market securities. Reporting to YFM Private Equity Limited, the fund is managed by Prime Rate Capital LLP. The Board receives regular reports on the diversity and return of the fund's portfolio. At the year end £nil was held in this fund and £3,114,000 was deposited in an interest bearing account with Royal Bank of Scotland plc which is included within Cash and Cash Equivalents on the balance sheet.

## Financial Instruments

Further information on financial instruments is provided in Note 19 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, unsecured loan stocks or debenture loans. Each investment is valued in accordance with the policy set out on page 24 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 gains on disposals of 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.

# Directors' Report

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 or other similar fixed interest securities 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 cash required for new investments.

Details of financial assets held at 31 March 2011 can be found in the Fund Manager's Review and notes 7 and 19 to these Financial Statements.

## Administration

YFM Private Equity Limited has acted as Fund Manager 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.

Following approval of the relevant resolution at the Annual General Meeting of the Company held in August 2009 the incentive scheme set out in the Subscription Rights Agreement dated 28 February 1996 was replaced by a revised Incentive Agreement dated 7 July 2009 ("the Incentive Agreement"). Under the Incentive Agreement the Fund Manager will receive an incentive payment equal to 20% of the amount by which dividends paid in the relevant accounting period exceed 4.0 pence per share (increasing in line with RPI) once cumulative dividends of 10.0 pence per share from 1 April 2009 have been paid. These incentive payments are also subject to cumulative shortfalls in any prior accounting periods being made up and the average Net Asset Value per share in the relevant accounting period being not less than 94.0 pence per share.

No payment can be made under the Incentive Agreement until the Net Asset Value of the Company has increased to 94.0 pence per share and in addition at least 10 pence per share in dividends has been paid to Shareholders. Payment is made 5 business days after the relevant Annual General Meeting at which the audited accounts are presented to Shareholders.

There are also provisions for a compensatory fee in circumstances where the Company is taken over or the Incentive Agreement is terminated, which is calculated as a percentage of the fee that would otherwise be payable under the Incentive Agreement by reference to the accounting period following its termination. In this instance 80% is payable in the first accounting period after such an event, 55% in the second, 35% in the third and nothing is payable thereafter. The maximum fee payable in any 12 month period cannot exceed an amount which would represent 25% or more of the Net Asset Value or market capitalisation of the Company.

In the year ended 31 March 2011 £142,278 has been accrued to the Fund Manager under the Incentive Agreement. (31 March 2010: Nil)

This report was approved by the Board on 13 June 2011 and signed on its behalf by:



**Helen Sinclair**  
Chairman

# Directors' Remuneration Report

## Directors and their Interests

The directors of the Company at 31 March 2011 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 2011	31 March 2010 or if later date of appointment
H Sinclair	13,407	7,270
P S Cammerman	35,880	35,880
C W E R Buchan (appointed 22.09.10)	1,972	-

None of the directors have subscribed for or been allotted further shares since the year end.

Brief biographical notes on the directors are given on page 25. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him or her to any benefit other than the remuneration disclosed below, and 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. Further information on contracts of service is given on page 30.

The Company had no employees, other than its directors, in either year.

## Remuneration (audited)

Total directors' remuneration for the year amounted to £85,538 (2010: £95,000) all of which was paid to five (2010: 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:

	2011 £	2010 £
H Sinclair	35,000	35,000
P S Cammerman	20,000	20,000
C W E R Buchan (appointed 22.09.10)	10,538	-
R Last (resigned 21.09.10)	10,000	20,000
R M Pettigrew (resigned 21.09.10)	10,000	20,000
	<b>85,538</b>	95,000

There are no executive directors (2010: none).

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

## Performance Graphs

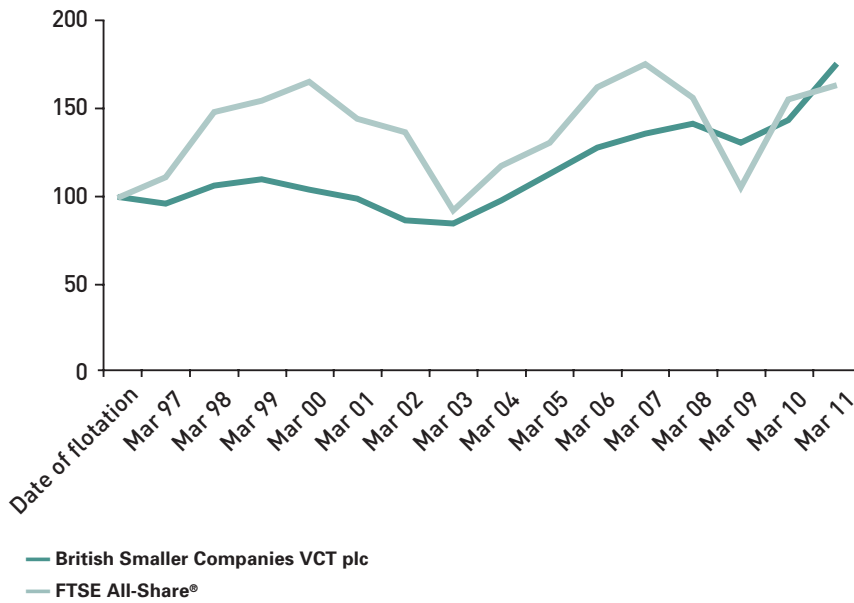
The graphs show a comparison between the Company's total Shareholder return compared with the companies in the FTSE All-Share® Index from the date of flotation to 31 March 2011. The directors consider this to be the most appropriate published index on which to report on comparative performance.

The first graph looks at the value, calculated by reference to the Net Asset Value and cumulative dividends paid (note 13) of £100 invested in the Company's shares, excluding tax relief received on this investment, with the value of £100 invested in the FTSE All-Share® Index over the same period. The calculation assumes that any dividends have been paid and not reinvested in shares of the Company.

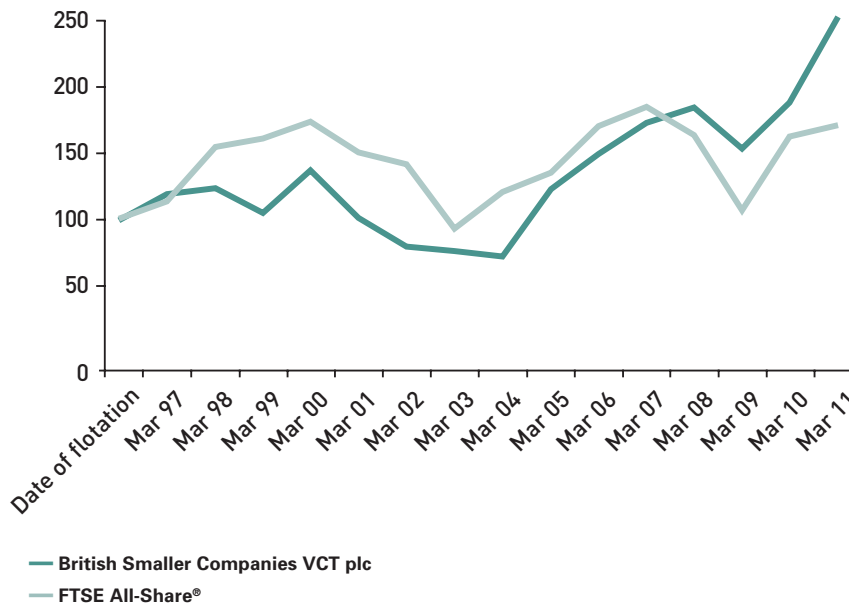
The second graph displays the share price return from the date of flotation in 1996 to 31 March 2011 compared to the FTSE All-Share® Index. It shows that at 31 March 2011 a hypothetical £100 invested in the Company at the time of its listing on the London Stock Exchange would have generated a total return of £244 compared with £164 if invested in the FTSE All-Share® Index. This assumes that at the time of flotation the tax relief given on the £100 investment was also invested in shares of the Company. Therefore this graph shows the share price return based on the initial investment of £100 purchasing 125 shares at £0.80 each, rather than 100 shares at £1.00 each. Furthermore the calculation of share price return assumes that any dividends received have been reinvested in the Company's shares at the prevailing quoted share price at the end of the financial period to which the dividends relate.

# Directors' Remuneration Report

Net Asset Value Return



Share Price Return



This report was approved by the Board on 13 June 2011 and signed on its behalf by:

**Helen Sinclair**  
Chairman

# Independent Auditor's Report

## 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 2011, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 33, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on directors' remuneration.

### Craig Burton

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Sheffield  
13 June 2011

# Statement of Comprehensive Income

For the year ended 31 March 2011

	Notes	2011			2010		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	7	-	19	19	-	357	357
Gains on investments held at fair value	7	-	10,254	10,254	-	3,606	3,606
Income	2	1,174	-	1,174	1,129	-	1,129
Administrative expenses:							
Fund management fee		(153)	(460)	(613)	(136)	(407)	(543)
Incentive fee		-	(142)	(142)	-	-	-
Other expenses		(319)	-	(319)	(347)	-	(347)
	3	(472)	(602)	(1,074)	(483)	(407)	(890)
<b>Profit before taxation</b>		<b>702</b>	<b>9,671</b>	<b>10,373</b>	646	3,556	4,202
Taxation	4	(86)	86	-	(100)	100	-
<b>Profit for the year</b>		<b>616</b>	<b>9,757</b>	<b>10,373</b>	546	3,656	4,202
<b>Total comprehensive income for the year</b>		<b>616</b>	<b>9,757</b>	<b>10,373</b>	546	3,656	4,202
<b>Basic and diluted earnings per Ordinary share</b>	6	<b>1.86p</b>	<b>29.52p</b>	<b>31.38p</b>	1.77p	11.88p	13.65p

The accompanying notes on pages 43 to 58 are an integral part of these financial statements.

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs'). The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2009 published by the Association of Investment Companies.

# Balance Sheet

At 31 March 2011

	Notes	2011 £000	2010 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments		29,946	17,256
Fixed income government securities		8,537	9,740
Financial assets at fair value through profit or loss	7	38,483	26,996
<b>Current assets</b>			
Trade and other receivables	8	359	319
Fundraising amounts not yet received		-	1,736
Cash and cash equivalents	9	3,114	1,820
		3,473	3,875
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	(784)	(237)
Fundraising accrual (net)		-	(1,626)
<b>Net current assets</b>		<b>2,689</b>	<b>2,012</b>
<b>Net assets</b>		<b>41,172</b>	<b>29,008</b>
<b>Shareholders' equity</b>			
Share capital	11	3,646	3,212
Share premium account		19,492	15,398
Capital redemption reserve		221	221
Treasury share reserve		(1,866)	(1,175)
Capital reserve		(372)	93
Investment holding gains reserve		11,780	1,558
Special reserve		2,408	2,408
Revenue reserve		5,863	7,293
<b>Total Shareholders' equity</b>		<b>41,172</b>	<b>29,008</b>
<b>Basic and diluted Net Asset Value per Ordinary share</b>	12	<b>120.0p</b>	94.4p

The accompanying notes on pages 43 to 58 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 13 June 2011 and were signed on its behalf by:



**Helen Sinclair**  
Chairman



# Statement of Changes in Equity

For the year ended 31 March 2011

	Share capital	Share premium account	Capital redemption reserve	Treasury share reserve	Capital reserve	Investment holding gains reserve	Special reserve	Revenue reserve	Total Shareholders' equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2009</b>	<b>3,187</b>	<b>15,236</b>	<b>221</b>	<b>(931)</b>	<b>-</b>	<b>(1,389)</b>	<b>2,408</b>	<b>7,668</b>	<b>26,400</b>
<i>Revenue return for the year</i>	-	-	-	-	-	-	-	546	546
<i>Capital expenses</i>	-	-	-	-	(307)	-	-	-	(307)
<i>Gain on investments held at fair value</i>	-	-	-	-	-	3,606	-	-	3,606
<i>Gain on disposal of investments in the year</i>	-	-	-	-	357	-	-	-	357
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>3,606</b>	<b>-</b>	<b>546</b>	<b>4,202</b>
<i>Issue of share capital</i>	25	162	-	-	-	-	-	-	187
<i>Purchase of own shares</i>	-	-	-	(244)	-	-	-	-	(244)
<i>Dividends</i>	-	-	-	-	(616)	-	-	(921)	(1,537)
<b>Total transactions with owners</b>	<b>25</b>	<b>162</b>	<b>-</b>	<b>(244)</b>	<b>(616)</b>	<b>-</b>	<b>-</b>	<b>(921)</b>	<b>(1,594)</b>
<b>Realisation of prior year investment holding gains</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>659</b>	<b>(659)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 March 2010</b>	<b>3,212</b>	<b>15,398</b>	<b>221</b>	<b>(1,175)</b>	<b>93</b>	<b>1,558</b>	<b>2,408</b>	<b>7,293</b>	<b>29,008</b>
<i>Revenue return for the year</i>	-	-	-	-	-	-	-	616	616
<i>Capital expenses</i>	-	-	-	-	(516)	-	-	-	(516)
<i>Gain on investments held at fair value</i>	-	-	-	-	-	10,254	-	-	10,254
<i>Gain on disposal of investments in the year</i>	-	-	-	-	19	-	-	-	19
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(497)</b>	<b>10,254</b>	<b>-</b>	<b>616</b>	<b>10,373</b>
<i>Issue of share capital</i>	434	4,243	-	-	-	-	-	-	4,677
<i>Issue costs</i>	-	(149)	-	-	-	-	-	-	(149)
<i>Purchase of own shares</i>	-	-	-	(691)	-	-	-	-	(691)
<i>Dividends</i>	-	-	-	-	-	-	-	(2,046)	(2,046)
<b>Total transactions with owners</b>	<b>434</b>	<b>4,094</b>	<b>-</b>	<b>(691)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,046)</b>	<b>1,791</b>
<b>Realisation of prior year investment holding gains</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>(32)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 March 2011</b>	<b>3,646</b>	<b>19,492</b>	<b>221</b>	<b>(1,866)</b>	<b>(372)</b>	<b>11,780</b>	<b>2,408</b>	<b>5,863</b>	<b>41,172</b>

The accompanying notes on pages 43 to 58 are an integral part of these financial statements.

The treasury share reserve was created for the purchase and holding of the Company's own shares. The capital redemption reserve was created for the purchase and cancellation of the Company's own shares.

The capital reserve includes gains and losses compared to cost on the disposal of investments, capital expenses, together with the related taxation effect and capital dividends paid to Shareholders.

The investment holding gains reserve includes increases and decreases in the valuation of investments held at fair value. This is a non-distributable reserve.

The special 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.

The special reserve, capital reserve, revenue reserve and treasury share reserve are all distributable reserves. These reserves total £6,033,000 (2010: £8,619,000) representing a decrease of £2,586,000 (2010: £526,000 decrease) during the year. This change arises from the profit in the year of £119,000 (2010: £596,000), a movement in the investment holding reserve of £32,000 (2010: £659,000), dividends of £2,046,000 (2010: £1,537,000) and the purchase of own shares of £691,000 (2010: £244,000). The directors also take into account the level of the capital reserve when determining the level of dividend payments.

# Statement of Cash Flows

For the year ended 31 March 2011

	Notes	2011 £000	2010 £000
<b>Net cash inflow from operating activities</b>	14	<b>717</b>	654
<b>Cash flows used in investing activities</b>			
Purchase of financial assets at fair value through profit or loss	7	<b>(6,802)</b>	(6,389)
Proceeds from sale of financial assets at fair value through profit or loss	7	<b>5,588</b>	5,517
<b>Net cash used in investing activities</b>		<b>(1,214)</b>	(872)
<b>Cash flows from (used in) financing activities</b>			
Issue of Ordinary shares		<b>4,677</b>	-
Cost of Ordinary share issue		<b>(149)</b>	(76)
Purchase of own Ordinary shares		<b>(691)</b>	(244)
Dividends paid	5	<b>(2,046)</b>	(1,339)
<b>Net cash from (used in) financing activities</b>		<b>1,791</b>	(1,659)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,294</b>	(1,877)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,820</b>	3,697
<b>Cash and cash equivalents at the end of the year</b>	9, 15	<b>3,114</b>	1,820

The accompanying notes on pages 43 to 58 are an integral part of these financial statements.

# Notes to the Financial Statements

## 1. Principal Accounting Policies

### Basis of Preparation

The accounts have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the measurement of investments including quoted Government Securities at fair value through profit or loss.

Where guidance set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 (SORP) is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

The financial statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. None of the standards and amendments to standards mandatory for the first time for the financial year commencing 1 April 2010 have had an impact on the preparation of the financial statements.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been early adopted in these financial statements. These include amendments to IFRS 7, IAS 12, IAS 24, IAS 32, IFRIC 14, and the issue of IFRS 9 and IFRIC 19 along with the improvements to IFRSs issued in May 2010. These changes are not expected to 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 or 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 (IPEVC) Valuation Guidelines issued in August 2010. The investment valuations in the financial statements for the year ended 31 March 2010 were made in accordance with IAS 39 and the IPEVC guidelines issued in September 2009. The updates to the IPEVC consist of clarifications and expanded guidance therefore application of the revised guidelines as at 31 March 2010 would not have resulted in significant changes to the investment valuations at that date. A detailed explanation of the valuation policies of the Company is included on page 24.

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 investment portfolio, and their value to the Company lies in their marketable value as part of that portfolio, so none represent investments in associated undertakings. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates' and IAS 31 'Financial reporting of interest in joint ventures', which give exemptions from equity accounting for venture capital organisations.

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, the Company 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.

Investments in quoted Government Securities are classified at fair value through profit or loss as they do not 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.

# Notes to the Financial Statements

## 1. Principal Accounting Policies (continued)

### 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 and debt securities are recognised on a time apportionment basis using the effective interest rate over the life of the financial instrument. Income which is not likely to be received within a reasonable period of time is reflected in the capital value of the investment. Income from deposit interest is included on an effective interest rate basis and is accrued to the end of the period.

### Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Revenue column of the Statement of Comprehensive Income, except for fund management fees. Of these fees 75 per cent are instead allocated to the Capital column of the Statement of Comprehensive Income, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains.

Tax relief is allocated to the capital reserve using a marginal rate basis.

### Cash and Cash Equivalents

Cash and cash equivalents include cash at hand and investments in high quality AAA rated liquidity funds. These funds are classified under cash equivalents as they meet the definition in IAS 7 'Cash flow statements' of a short term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

### Capital Reserve

This reserve includes gains and losses compared to cost on the disposal of investments and expenses, together with the related taxation effect, charged to this reserve in accordance with the above policy. Also included are capital dividends paid to Shareholders.

### Investment Holding Gains Reserve

This reserve includes increases and decreases in the valuation of investments held at fair value.

### Special Reserve

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

### 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 that have originated, but not reversed, by 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.

### Dividends Payable

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

### Segmental Reporting

Segmental reporting has been determined by the directors based upon the reports reviewed by the Board. The directors are of the opinion that the Company has engaged in a single operating segment – investing in equity and debt securities within the United Kingdom – and therefore no reportable segmental analysis is provided.

# Notes to the Financial Statements

## Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with generally accepted accounting practice 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.

## 2. Income

	2011 £000	2010 £000
Income from investments:		
– Dividends from unquoted companies	214	78
– Dividends from quoted companies	75	94
	289	172
– Interest on loans to unquoted companies	435	295
– Fixed interest Government securities	436	609
Income from investments held at fair value through profit or loss	1,160	1,076
Interest on VAT recovered in 2009	–	16
Interest on deposits	14	37
	1,174	1,129

## 3. Administrative Expenses

	2011 £000	2010 £000
Fund management fee	613	543
Incentive fee	142	–
Other expenses:		
– Administration fee	51	49
– Directors' remuneration (comprises only short-term benefits)	94	104
– Auditor's remuneration – audit fees	16	18
– General expenses	158	176
	1,074	890

YFM Private Equity Limited provides fund management services to the Company 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 a fund management 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. The fund management fee is allocated between capital and revenue as described in note 1.
- 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. This fee is charged fully to revenue.

# Notes to the Financial Statements

## 3. Administrative Expenses (continued)

The total remuneration payable to YFM Private Equity Limited as an administration fee in the year was £664,000 (2010: £592,000).

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 36 under the heading "Remuneration".

Following approval of the relevant resolution at the Annual General Meeting of the Company held in August 2009, the incentive scheme set out in the Subscription Rights Agreement dated 28 February 1996 ("the Subscription Rights Agreement") was replaced by a revised Incentive Agreement dated 7 July 2009 ("the Incentive Agreement"). Under the Incentive Agreement the Fund Manager will receive an incentive payment equal to 20% of the amount by which dividends paid in the relevant accounting period exceed 4.0 pence per share once cumulative dividends of 10.0 pence per share from 1 April 2009 have been paid. These incentive payments are also subject to cumulative shortfalls in any prior accounting periods being made up and the average Net Asset Value per share in the relevant accounting period being not less than 94.0 pence per share.

No payment can be made under the Incentive Agreement until the Net Asset Value of the Company has increased to 94.1 pence per share and in addition at least 10.0 pence per share in dividends has been paid to Shareholders. Payment is made 5 business days after the relevant Annual General Meeting at which the audited accounts are presented to Shareholders.

During the year, the Fund Manager had achieved its target of 94.1 pence per share and £142,278 has been provided for within trade and other payables. The incentive fee is payable following the Annual General Meeting on 29 July 2011.

There are also provisions for a compensatory fee in circumstances where the Company is taken over or the Incentive Agreement is terminated, which is calculated as a percentage of the fee that would otherwise be payable under the Incentive Agreement by reference to the accounting period following its termination. In this instance 80% is payable in the first accounting period after such an event, 55% in the second, 35% in the third and nothing is payable thereafter. The maximum fee payable in any 12 month period cannot exceed an amount which would represent 25% or more of the Net Asset Value or market capitalisation of the Company.

Fees are payable to the auditors of £6,250 in respect of other services supplied pursuant to legislation (2010: nil). This relates to a service supplied in the year in respect of the Prospectus document issued.

## 4. Taxation

	2011			2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	702	9,671	10,373	646	3,556	4,202
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 21% (2010: 21%)	147	2,031	2,178	136	746	882
<b>Effect of:</b>						
UK dividends received	(61)	-	(61)	(36)	-	(36)
Non taxable profits on investments	-	(2,157)	(2,157)	-	(832)	(832)
Excess management expenses	-	40	40	-	(14)	(14)
Tax charge (credit)	86	(86)	-	100	(100)	-

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

Deductible temporary differences for which no deferred tax asset has been recognised amount to £295,000 calculated at 20% (2010: £270,000 calculated at 21%) in respect of unrelieved management expenses. These have not been recognised as the directors 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 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.

# Notes to the Financial Statements

## 5. Dividends

Amounts recognised as distributions to equity holders in the year:

	2011			2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 March 2010 – 3.0p per Ordinary share; paid 28 September 2010 (2009: 3.0p per Ordinary share) and	983	–	983	921	–	921
Special dividend 1.25p per Ordinary share paid on 28 September 2010 (2010: nil)	410	–	410	–	–	–
Interim dividend 2.0p per Ordinary share paid on 7 January 2011 (2010: 2.0p per Ordinary share)	653	–	653	–	616	616
	<b>2,046</b>	<b>–</b>	<b>2,046</b>	921	616	1,537

The interim dividend of 2.0 pence per Ordinary share was paid on 7 January 2011 to Shareholders on the register at 10 December 2010.

The special dividend of 1.25 pence per Ordinary share was paid on 28 September 2010 to Shareholders on the register at 3 September 2010.

A final dividend of 3.0 pence per Ordinary share in respect of the year to 31 March 2011, amounting to £1,072,000, has been proposed. This has not been recognised in the year ended 31 March 2011 as the obligation did not exist at the balance sheet date.

## 6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per Ordinary share is based on the profit after tax attributable to equity Shareholders of £10,373,000 (2010: £4,202,000) and 33,051,075 (2010: 30,774,418) shares, being the weighted average number of shares in issue during the year.

The basic and diluted revenue return per Ordinary share is based on the revenue profit for the year attributable to equity Shareholders after tax of £616,000 (2010: £546,000) and 33,051,075 (2010: 30,774,418) shares being the weighted average number of shares in issue during the year.

The basic and diluted capital return per Ordinary share is based on the capital profit for the year after tax attributable to equity Shareholders of £9,757,000 (2010: £3,656,000) and 33,051,075 (2010: 30,774,418) shares being the weighted average number of shares in issue during the year.

During the year the Company issued 4,346,734 Ordinary shares. The Company also repurchased 778,448 of its own shares, which are held in treasury.

The 2,161,285 treasury shares have been excluded in calculating the weighted average number of Ordinary shares during the year (2010: 1,382,837). The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted earnings per share are the same. After the year end the Company issued 1,421,329 Ordinary shares (note 18). If these shares had been issued on 31 March 2011 the weighted average number of shares in issue during the year would have been 33,086,122 and there would have been no change in the basic and diluted earnings per Ordinary share figures shown at the foot of the Statement of Comprehensive Income.

## 7. Financial Assets at Fair Value through Profit or Loss

Effective from 1 April 2009 the Company adopted the amendment to IFRS 7 regarding financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1:** quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1 and comprise AiM listed investments or Government securities classified as held at fair value through profit or loss.
- Level 2:** the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company holds no such instruments in the current or prior year.

# Notes to the Financial Statements

## 7. Financial Assets at Fair Value through Profit or Loss (continued)

- **Level 3:** the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There have been no transfers between these classifications in the period (2010: none) and the movement in level 3 instruments is disaggregated below. The change in fair value for the current and previous year is recognised through profit or loss.

All items held as fair value through profit or loss were designated as such upon initial recognition. Movements in investments at fair value through profit or loss during the year to 31 March 2011 are summarised as follows:

IFRS 7 measurement classification	Level 3	Level 3	Level 1		Level 1	
	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	<b>Total Quoted and Unquoted £000</b>	Fixed Income Securities £000	<b>Total Investments £000</b>
Opening cost	4,583	8,122	3,427	<b>16,132</b>	9,548	<b>25,680</b>
Opening valuation gain (loss)	2,146	(1,474)	452	<b>1,124</b>	192	<b>1,316</b>
<b>Opening fair value at 1 April 2010</b>	<b>6,729</b>	<b>6,648</b>	<b>3,879</b>	<b>17,256</b>	<b>9,740</b>	<b>26,996</b>
Additions at cost	530	1,932	499	<b>2,961</b>	3,841	<b>6,802</b>
Disposal proceeds	(60)	(497)	(274)	<b>(831)</b>	(4,757)	<b>(5,588)</b>
Net profit (loss) on disposal	93	-	93	<b>186</b>	(167)	<b>19</b>
Change in fair value on assets held at 31 March 2011	9,562	809	3	<b>10,374</b>	(120)	<b>10,254</b>
<b>Closing fair value at 31 March 2011</b>	<b>16,854</b>	<b>8,892</b>	<b>4,200</b>	<b>29,946</b>	<b>8,537</b>	<b>38,483</b>
Closing cost	3,178	9,584	3,855	<b>16,617</b>	8,511	<b>25,128</b>
Closing valuation gain (loss)	13,676	(692)	345	<b>13,329</b>	26	<b>13,355</b>
<b>Closing fair value at 31 March 2011</b>	<b>16,854</b>	<b>8,892</b>	<b>4,200</b>	<b>29,946</b>	<b>8,537</b>	<b>38,483</b>

All of the changes in fair value during the year to level 3 investments related to assets held at the year end.

Movements in investment at fair value through profit or loss during the year to 31 March 2010 are summarised as follows:

IFRS 7 measurement classification	Level 3	Level 3	Level 1		Level 1	
	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	<b>Total Quoted and Unquoted £000</b>	Fixed Income Securities £000	<b>Total Investments £000</b>
Opening cost	4,531	3,939	3,427	<b>11,897</b>	11,896	<b>23,793</b>
Opening valuation (loss) gain	(918)	(1,138)	(135)	<b>(2,191)</b>	559	<b>(1,632)</b>
<b>Opening fair value at 1 April 2009</b>	<b>3,613</b>	<b>2,801</b>	<b>3,292</b>	<b>9,706</b>	<b>12,455</b>	<b>22,161</b>
Additions at cost	479	4,239	-	<b>4,718</b>	1,671	<b>6,389</b>
Disposal proceeds	(1,432)	(56)	-	<b>(1,488)</b>	(4,029)	<b>(5,517)</b>
Net profit (loss) on disposal	491	-	-	<b>491</b>	(134)	<b>357</b>
Change in fair value on assets held at 31 March 2010	3,578	(336)	587	<b>3,829</b>	(223)	<b>3,606</b>
<b>Closing fair value at 31 March 2010</b>	<b>6,729</b>	<b>6,648</b>	<b>3,879</b>	<b>17,256</b>	<b>9,740</b>	<b>26,996</b>
Closing cost	4,583	8,122	3,427	<b>16,132</b>	9,548	<b>25,680</b>
Closing valuation gain (loss)	2,146	(1,474)	452	<b>1,124</b>	192	<b>1,316</b>
<b>Closing fair value at 31 March 2010</b>	<b>6,729</b>	<b>6,648</b>	<b>3,879</b>	<b>17,256</b>	<b>9,740</b>	<b>26,996</b>



# Notes to the Financial Statements

## 7. Financial Assets at Fair Value through Profit or Loss (continued)

The movements in level 1 and level 3 instruments, as defined earlier in this note, are summarised below.

	Level 1 £000	Level 3 £000	Total £000
<b>Opening fair value at 1 April 2010</b>	13,619	13,377	<b>26,996</b>
Additions at cost	4,340	2,462	<b>6,802</b>
Disposal proceeds	(5,031)	(557)	<b>(5,588)</b>
Net (loss) profit on disposal	(74)	93	<b>19</b>
Change in fair value in the year on assets held at 31 March 2011	(117)	10,371	<b>10,254</b>
<b>Closing fair value at 31 March 2011</b>	<b>12,737</b>	<b>25,746</b>	<b>38,483</b>

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect change in fair value of financial assets held at the price of recent investment, or to adjust earnings multiples. The sensitivity of these valuations to a reasonable possible change in such assumptions is given in note 19a.

The total of fair value adjustments below cost made against unquoted investments at 31 March 2011 amounted to £231,000 (2010: £724,000). There were no investments fair valued to nil in 2011 or 2010.

There have been no individual fair value adjustments downwards during the year which exceeded 5% of the total assets of the Company (2010: none).

Fixed income securities are UK Government stocks and are classified as financial assets at fair value through profit or loss. Their use is as temporary holdings until capital investment opportunities arise.

The following disposals took place in the year (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 April 2010 £000	Profit (loss) on realisation £000
RMS Group Holdings Limited	477	450	383	94
EKF Diagnostics Holdings plc*	105	53	53	52
Tikit Group plc*	95	45	57	38
Straight plc*	74	75	71	3
Primal Pictures Limited	31	11	31	-
Freshroast Coffee Co. Limited	29	5	30	(1)
Denison Mayes Limited	20	20	20	-
<b>Total</b>	<b>831</b>	<b>659</b>	<b>645</b>	<b>186</b>

\*Designates quoted company.

# Notes to the Financial Statements

## 7. Financial Assets at Fair Value through Profit or Loss (continued)

The following disposals took place in 2010 (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale	Cost	Opening carrying value as at 1 April 2009	Profit (loss) on realisation
	£000	£000	£000	£000
Sheet Piling (UK) Limited	1,288	110	750	538
Primal Pictures Limited	62	22	62	-
Images at Work Limited	49	295	129	(80)
RMS Group Holdings Limited	36	36	36	-
Tekton Group Limited	12	-	-	12
Secure Mail Services Limited	21	-	-	21
Denison Mayes Limited	20	20	20	-
<b>Total</b>	<b>1,488</b>	<b>483</b>	<b>997</b>	<b>491</b>

### Significant Interests

At 31 March 2011 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:

Company	Principal activity	No. of shares	Class of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
4G Capital Limited	Software	2	Ordinary	50.00%	50.00%
Adex Bridge Investments Limited	Turnaround	3	Ordinary	50.00%	50.00%
Darwin Rhodes Group Limited	Recruitment	60,071	Ordinary	6.06%	30.89%
Deep-Secure Ltd	Software	100,000	Ordinary	12.86%	45.00%
Ellfin Home Care Limited	Healthcare	71,089	Ordinary	16.02%	74.00%
Fishawack Limited	Communications	57,293	Ordinary	8.39%	42.75%
GO Outdoors Limited	Consumer Products	36,016	Ordinary	20.20%	20.20%
Harris Hill Holdings Limited	Recruitment	65,714	Ordinary	10.70%	37.50%
Harvey Jones Limited	Manufacturing	77,715	Ordinary	6.88%	30.12%
Lightmain Company Limited	Manufacturing	642,860	Ordinary	30.00%	30.00%
North Western Investments Limited	Turnaround	2	Ordinary	50.00%	50.00%
President Engineering Group Limited	Manufacturing	200	Ordinary	20.00%	20.00%
Primal Pictures Limited	Healthcare	79,680	Ordinary	3.90%	21.08%
RMS Group Holdings Limited	Industrial	166,147	Ordinary	8.46%	32.90%
Waterfall Services Limited	Support Services	100,010	Ordinary	18.45%	23.06%

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

In a number of cases the issued Ordinary share capital of an investee company is split into different classes of shares and thus the percentages given above do not necessarily represent the Company's (or other commonly managed funds') percentage holding of an investee company's total equity. The Company does not hold more than 50% of the equity of any company in the investment portfolio, either on its own or in conjunction with other commonly managed funds.

# Notes to the Financial Statements

## 7. Financial Assets at Fair Value through Profit or Loss (continued)

YFM Private Equity Limited, the Company's Fund Manager, also acts as fund manager to certain other funds under its management that have 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 2011 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT2 plc £000	North West Business Investment Scheme £000	Baring English Growth Fund (North) LP £000	The Chandos Fund £000	Total £000	Total for this Company £000
Brulines plc	81	-	-	-	81	163
Cambridge Cognition Limited	240	-	-	-	240	325
Darwin Rhodes Group Limited	-	-	-	950	950	444
Deep-Secure Ltd	500	-	-	2,000	2,500	1,000
Ellfin Home Care Limited	317	1,098	-	1,173	2,588	823
Fishawack Limited	-	-	-	3,175	3,175	775
Harris Hill Holdings Limited	-	-	-	2,349	2,349	600
Harvey Jones Holdings Limited	389	-	-	2,234	2,623	777
K3 Business Technology Group plc	-	502	-	-	502	402
Patsystems plc	317	-	42	-	359	222
Pressure Technologies plc	300	-	-	-	300	425
Primal Pictures Limited	897	-	-	-	897	468
RMS Group Holdings Limited	210	-	-	750	960	540
Waterfall Services Limited	250	-	-	-	250	1,000

## 8. Trade and Other Receivables

	2011 £000	2010 £000
<b>Amounts receivable within one year:</b>		
Trade receivables	149	116
Less: Allowances for credit losses on trade receivables	(82)	(80)
Prepayments and accrued income	292	274
Other debtors	-	9
	<b>359</b>	<b>319</b>
<b>Allowance for credit losses on trade receivables:</b>		
Allowances as at 1 April	80	55
Additions – charged to Statement of Comprehensive Income	2	25
<b>Allowances as at 31 March</b>	<b>82</b>	<b>80</b>

Trade receivables are assessed for impairment when older than 90 days. As of 31 March 2011 trade receivables of £67,000 were past due but not impaired (2010: £36,000). The ageing analysis of these trade receivables is as follows:

	2011 £000	2010 £000
1 – 3 months	67	36

# Notes to the Financial Statements

## 8. Trade and Other Receivables (continued)

As of 31 March 2011, trade receivables of £82,000 (2010: £80,000) were impaired and provided for. The ageing of these receivables is as follows:

	2011 £000	2010 £000
3 – 6 months	18	44
6 – 12 months	64	36

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £175,000 (2010: £157,000). The Company does not hold any collateral as security. The carrying amounts of the Company's trade and other receivables are denominated in sterling.

## 9. Cash and Cash Equivalents

	2011 £000	2010 £000
Cash at bank	3,114	1,820

## 10. Trade and Other Payables

	2011 £000	2010 £000
<b>Amounts payable within one year:</b>		
Accrued expenses	474	225
Other creditors	310	12
	<b>784</b>	<b>237</b>

## 11. Called-up Share Capital

	2011		2010	
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10 pence				
Authorised: 165,000,000 (2010: 165,000,000)	16,500		16,500	
Issued: 36,461,765 (2010: 32,115,031)		3,646		3,212

The movements in the year were as follows:

	Date	Number	Share Capital £000
Total as at 1 April 2010		32,115,031	3,212
Issue of shares	1 April 2010	1,784,967	178
Issue of shares	6 April 2010	263,254	26
Issue of shares	24 June 2010	77	–
Issue of shares	28 September 2010	166,512	17
Issue of shares	7 January 2011	106,086	11
Issue of shares	22 March 2011	2,025,838	202
<b>As at 31 March 2011 (including treasury shares)</b>		<b>36,461,765</b>	<b>3,646</b>

# Notes to the Financial Statements

## 11. Called-up Share Capital (continued)

During the year the Company purchased 778,448 (2010: 331,882) of its own shares at an arithmetical average price of 88.7 pence per share. These shares are held on the balance sheet in the treasury share reserve. Full details of the share purchases are set out in the Directors' Report under the heading 'Issue and Buy-Back of Own Shares'. At the year end the number of shares held in treasury was 2,161,285 (2010: 1,382,837).

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

## 12. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per Ordinary share is calculated on attributable assets of £41,172,000 (2010: £29,008,000) and 34,300,480 (2010: 30,732,194) Ordinary shares in issue at the year end, excluding treasury shares.

The treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 March 2011. The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted Net Asset Values per Ordinary share are the same.

## 13. Total Return per Ordinary Share

The Total Return per Ordinary share is calculated on cumulative dividends paid of 56.2 pence per Ordinary share (2010: 50.0 pence per Ordinary share) plus the Net Asset Value as calculated per note 12.

## 14. Reconciliation of Profit before Taxation to Net Cash Inflow from Operating Activities

	2011 £000	2010 £000
Profit before taxation	10,373	4,202
Decrease (increase) in prepayments and accrued income	1,696	(1,382)
(Decrease) increase in accruals and other creditors	(1,079)	1,797
Profit on realisation of investments in the year	(19)	(357)
Revaluation of investments in the year	(10,254)	(3,606)
Net cash inflow from operating activities	717	654

Profit before taxation above includes the following cash movements:

	2011 £000	2010 £000
Dividends received	289	169
Interest received		
– gilt interest	476	670
– deposit interest	13	37
Total interest	489	707

## 15. Analysis of Changes in Cash and Cash Equivalents

	31 March 2010 £000	Cash flow £000	Other non cash changes £000	31 March 2011 £000
Cash and cash equivalents	1,820	1,294	–	3,114

# Notes to the Financial Statements

## 16. Financial Commitments

There have been no investments approved by the Board at 31 March 2011 that have not been reflected in these accounts (2010: one). Since the year end three further investments totalling £0.28 million have been approved by the Board (2010: 482,000).

## 17. Related Party Transactions

YFM Equity Partners Limited (formerly YFM Group Limited), the parent company of YFM Private Equity Limited, the Fund Manager to the Company, holds an investment in Primal Pictures Limited, an investee company of the Company. At 31 March 2011 YFM Equity Partners' investment in Primal Pictures Limited was valued at £29,161 (2010: £25,428).

Mr Cammerman is a non-executive director of Pressure Technologies plc. During the year Mr Cammerman received £15,925 (2010: £15,300) from Pressure Technologies plc in respect of his services. Mr Cammerman holds a 0.1% equity stake in Pressure Technologies plc, a 0.04% stake in Brulines plc and a 0.004% stake in Straight plc. Mr Cammerman is also a director and 2.1% shareholder of Howmac plc, which holds a 0.02% stake in Hargreaves Services plc. Mr Cammerman sold his 0.04% stake in Brulines plc on 4 April 2011.

## 18. Events after the Balance Sheet Date

In April 2011, the Company's investment in GO Outdoors Limited was partially realised for proceeds of £6.54 million.

On 5 April 2011 and on 4 May 2011 the Company allotted 1,038,195 and 383,134 Ordinary shares of 10.0 pence each at a price of 128 pence per Ordinary share pursuant to the linked offer for subscription made by the Company and British Smaller Companies VCT2 plc raising gross proceeds of £1.82 million.

On 13 May 2011 the Company realised 9,350 shares in Hargreaves Services plc generating proceeds of £0.09 million.

## 19. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used in either year. The Company classifies its financial assets as either fair value through profit or loss or loans and receivables.

The investments are valued in accordance with the policy stated on page 24. It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value due to their short term maturity. Therefore, the directors consider all assets to be carried at a valuation which equates to fair value.

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

In accordance with IAS 39, 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.

The accounting policies for financial instruments have been applied to the items below:

### Assets as per balance sheet

	2011		2010	
	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables	Assets at fair value through profit or loss
	£000	£000	£000	£000
Cash and cash equivalents	3,114	-	1,820	-
Trade and other receivables	175	-	157	-
Investments at fair value through profit or loss	-	38,483	-	26,996
<b>Total financial instruments</b>	<b>3,289</b>	<b>38,483</b>	<b>1,977</b>	<b>26,996</b>

# Notes to the Financial Statements

## 19. Financial Instruments (continued)

### Liabilities as per balance sheet

	2011 Other financial liabilities £000	2010 Other financial liabilities £000
Trade and other payables	784	237
Share capital to be issued	–	1,626
	<b>784</b>	<b>1,863</b>

Assets classified as fair value through profit or loss were designated as such upon initial recognition. The Company has not reclassified financial assets between any of the categories detailed in IAS 39, either in current or prior periods.

At 31 March 2011 and 31 March 2010, the financial assets and liabilities, by value, comprised:

	2011		2010	
	£000	%	£000	%
<b>Venture capital investments</b>				
Ordinary shares	20,612	50.1	10,151	35.0
Loan stock	8,892	21.6	6,648	22.9
Preferred Ordinary shares	442	1.1	457	1.6
	<b>29,946</b>	<b>72.8</b>	17,256	59.5
Fixed interest government securities	8,537	20.7	9,740	33.6
Cash at bank	3,114	7.6	1,820	6.3
Other financial assets	175	0.4	157	0.5
Other financial liabilities	(784)	(1.9)	(1,863)	(6.4)
	<b>40,988</b>	<b>99.6</b>	27,110	93.5
Other assets – not financial instruments	184	0.4	1,898	6.5
	<b>41,172</b>	<b>100.0</b>	29,008	100.0

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below. There have been no changes since last year in the objectives, policies, and processes for managing and measuring risks facing the Company.

### 19a Market Risk

#### Compliance Risk

Stock market valuations govern the Company's ability to rebase its Financial Intermediaries and Claims Office (FICO) ratios, for compliance with VCT regulations. Consequently, market movements also present a low level compliance risk, although the Company currently operates well within its FICO thresholds.

#### Equity Price Risk

The Company invests in young and expanding businesses, the shares of which may not be traded on the stock market. Consequently, exposure to market factors, in relation to many investments, stems from market based measures that may be used to value unlisted investments.

The market also defines the value at which investments may be realised. Returns are therefore maximised when investments are bought or sold at appropriate times in the economic cycle.

# Notes to the Financial Statements

## 19. Financial Instruments (continued)

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. In addition, the ability of the Company to purchase or sell investments is also constrained by requirements set down for venture capital trusts.

The Company is exposed to equity securities price risk because of investments held by the Company and classified on the balance sheet as fair value through profit or loss. The Company is not exposed to commodity price risk.

To manage price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Board. It is the Board's intention to limit exposure to any one stock to 20% of the total cost of investments and 25% of total NAV recognising the illiquid nature of the unquoted investments. The Board seeks to invest in counter-cyclical stocks where these are identified.

Of the Company's equity investments 20% by value are traded on AiM (2010: 37%). A 15% increase in stock prices as at 31 March 2011 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £630,000 (2010: £582,000). An equal change in the opposite direction would have decreased the net assets attributable to the Company's Shareholders and the total profit for the year by an equal amount.

80% of the Company's equity investments by value are in unquoted companies held at fair value (2010: 63%). The valuation methodology for these investments includes the application of externally produced FTSE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Investments have been valued in line with the valuation guidelines described on page 24. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10% decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £1,281,000 (3.1% of net assets). A change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by £1,370,000 (3.3% of net assets).

Other valuations are valued at the price of recent investment, reviewed for fair value changes and discounted where the fair value of the investment no longer equates to the cost of the recent investment. A 10% decrease in the discount applied would have had no impact on the net assets attributable to the Company's Shareholders and the total profit for the year.

The largest single concentration of risk relates to the Company's investment in GO Outdoors Limited which constitutes 32.8% (2010: 16.7%) of the net assets attributable to the Company's Shareholders. Following the year end the Company realised a proportion of its investment in GO Outdoors Limited thereby reducing the concentration. The Board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis. The average investment, excluding those suffering full impairment, is 2.5% (2010: 2.1%) of the value of net assets.

### **Exchange Rate Risk**

The Company has no significant exposure to exchange rate risk.

### **Interest Rate Risk**

The Company's venture capital investments include £8,892,000 (2010: £6,648,000) of loan stock in unquoted companies. This loan stock is predominantly at fixed rates to guard against fluctuations in interest rates. The Company is exposed to interest rate risk on 10.1% of its loan stock portfolio (2010: 41.0%). The Company has some exposure to interest rates as a result of interest earned on bank deposits. The Company's exposure to interest rate risk on these deposits is judged to be immaterial.



# Notes to the Financial Statements

## 19. Financial Instruments (continued)

Other financial assets, being accrued income and other financial liabilities, being accrued expenses, attract no interest and have an expected maturity date of less than 1 year.

	2011			2010		
		Weighted average interest rate	Weighted average time for which rate is fixed Months		Weighted average interest rate	Weighted average time for which rate is fixed Months
	£000	%		£000	%	
Fixed rate loan stock	6,629	14.56%	24	2,727	10.70%	31
Government gilts	8,537	3.52%	33	9,740	4.87%	19
Combined	15,166	5.97%	32	12,467	6.21%	25

### 19b Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Fund Manager has in place a monitoring procedure in respect of credit risk which is reviewed on an ongoing basis. The carrying amounts of financial assets excluding equity investments total £20,718,000 (2010: £18,365,000) which best represents the maximum credit risk exposure at the balance sheet date.

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government stock. The Company does not invest in floating rate instruments other than unquoted loan stock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed above.

The fair value of the loans and receivables is not regarded as having changed due to the changes in credit risk in either year.

The cash held by the Company is held across a number of banks to spread the risk. Bankruptcy or insolvency of these banks may cause the Company's rights with respect to the cash held by the bank to be delayed or limited. The bank, broker (for the gilts) and money market fund used by the Company are large and reputable. Should the credit quality or the financial position of the banks or fund deteriorate significantly the Fund Manager, gilt and money market managers will move the cash holdings to another bank or fund.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk. All the assets of the Company which are traded on a recognised exchange are held by Singer Capital Markets, the Company's stockbroker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited.

The maturities of the loan stock portfolio past their due dates are as follows:

	2011 £000			2010 £000		
	<1 year	1-2 years	2-5 years	<1 year	1-2 years	2-5 years
Unquoted loan investments	5	2,405	6,482	56	41	6,551

The past due maturity dates of the loan stock portfolio are as follows:

	2011 £000			2010 £000		
	1 month	3-6 months	> 6 months	1 month	3-6 months	> 6 months
Interest	-	-	-	-	44	36
Capital repayment	-	233	-	-	-	-

# Notes to the Financial Statements

## 19. Financial Instruments (continued)

### 19c Liquidity Risk

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 their nature, illiquid. Therefore, gains on disposal of these investments are a medium-to-long term aim. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Company also needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company places its surplus funds in a mixture of Government gilts, high interest deposit accounts and high quality AAA rated liquidity funds, which invest in a pool of highly rated money market securities. The Company's listed securities are considered to be readily realisable as they relate solely to UK Government stock, which is widely traded. Investments in Government stocks and liquidity funds are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Consequently, trading in Government stocks is primarily determined by the demand for cash for investment in qualifying companies.

Due to the structure of certain investments, 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.

The Company's liquidity risk is managed on an ongoing basis by the Fund Manager in accordance with policies and procedures in place. The cash requirements of the Company in respect of each investment are assessed at monthly portfolio meetings.

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. Of the Company's assets, 7.6% (2010: 6.3%) are in the form of liquid cash and cash equivalents. There are no undrawn committed borrowing facilities at either year end.

### Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 24. Where investments are in quoted stocks, fair value is set at market price, discounted if appropriate. Non-quoted investments are valued in line with IPEVC valuation guidelines. The primary methods used, and the key assumptions relating to them, are:

*Price of recent investment, reviewed for fair value changes* – The cost of the investment, adjusted for background factors specific to the investment, is taken as a reasonable assessment of fair value for a period of up to one year. During this period performance against budget is monitored for evidence of changes to this initial fair value. Valuations may be re-based following substantial investment by a third party when this offers evidence that there has been a change to fair value.

*Earnings multiple* – The appropriate sector FTSE multiples are used as a market-based indication of the enterprise value of an investment company. A discount is applied to the multiple by the Fund Manager to reflect the smaller size of companies in the portfolio compared to quoted companies.

Although permitted by the IPEVC valuation guidelines, other valuation methods have not been used in the year.

## 20. Capital Management

The Company's objectives when managing capital are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders; and
- to ensure sufficient liquid resources are available to meet the funding requirements of its investments and to fund new investments where identified.

The Company has no external debt; consequently all capital is represented by the value of share capital, distributable and other reserves. Total Shareholder equity at 31 March 2011 was £41.2 million (2010: £29.0 million).

In order to maintain or adjust its capital structure the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or sell assets.

There have been no changes in the capital management objectives or the capital structure of the business from the previous year. The Company is not subject to any externally imposed capital requirements.

# 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 33 St James Square, London, SW1Y 4JS on 29 July 2011 at 12:00 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions

## As Ordinary Business

### ORDINARY RESOLUTIONS

- (1) That the Annual Report and Accounts for the year ended 31 March 2011 be received.
- (2) That the final dividend of 3.0p per Ordinary share for the year ended 31 March 2011 be approved.
- (3) That the Directors' Remuneration Report for the year ended 31 March 2011 be approved.
- (4) That Ms H Sinclair who retires by rotation, be re-elected as a director.
- (5) That Mr P S Cammerman who retires by virtue of service of more than nine years, be re-elected as a director.
- (6) That Mr C W E R Buchan is elected as a director.
- (7) That Grant Thornton UK LLP be re-appointed as auditor to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.
- (8) That the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £378,831 representing approximately 10% of the share capital in issue as at 13 June 2011 provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the earlier of the date which is 15 months from the date hereof or the date of the next annual general meeting of the Company, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry. All previous authorities to allot given to the directors, other than the authority granted pursuant to resolution 3 (authority to allot shares in respect of the dividend reinvestment scheme) at the general meeting of the Company held on 11 January 2011, be and are hereby revoked provided that such revocation shall not have retrospective effect.

## As Special Business

### SPECIAL RESOLUTIONS

- (9) That the directors be and are hereby empowered in accordance with section 570(1) of the Companies Act 2006 during the period commencing on the passing of this resolution and expiring, unless renewed, varied or revoked by the Company, on the earlier of the conclusion of the Company's next annual general meeting or the expiry of 15 months following the passing of this resolution, to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash pursuant to the general authority conferred upon the directors in resolution 8 above, or by way of a sale of treasury shares, as if section 561 of the Companies Act 2006 did not apply to such allotment provided that this power is limited to the allotment of equity securities in the Company up to an aggregate nominal amount of 10% of the issued share capital of the Company as at 13 June 2011, 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 560(2) of the Companies Act 2006 as if in this resolution the words "pursuant to the general authority conferred upon the directors in resolution 8 above" were omitted. All previous authorities granted to the directors to allot equity securities as if Section 561 of the Companies Act 2006 did not apply, other than the authority granted pursuant to resolution 5 (authority to disapply Section 561 to the allotment of equity securities in connection with the dividend reinvestment scheme) at the general meeting of the Company held on 11 January 2011, be and are hereby revoked provided that such revocation shall not have retrospective effect.
- (10) 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 693(4) of the Companies Act 2006) of Ordinary shares of 10.0p in the capital of the Company provided that:
  - (i) the maximum aggregate number of Ordinary shares that may be purchased is 5,354,699 being 14.99% of the issued Ordinary shares as at 13 June 2011;
  - (ii) the maximum price which may be paid for an Ordinary share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
  - (iii) the minimum price which may be paid for an Ordinary share is its nominal value;

# Notice of the Annual General Meeting

- (iv) this authority shall take effect from 29 July 2011 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
- (v) 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

**C Mackintosh**  
**Secretary**

13 June 2011

Registered office: Saint Martins House, 210-212 Chapeltown Road, Leeds LS7 4HZ

Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006, is available from [www.yfmep.com](http://www.yfmep.com)

### NOTES:

- a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
  - answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.
- b) To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours before the time appointed for taking the poll, or where the poll is taken not more than 48 hours after it was demanded, be delivered at the meeting at which the demand is made.
- c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- e) Copies of the directors' Letters of Appointment and the Register of Directors' interests in the Ordinary shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and Public Holidays excluded) from the date of this notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.
- f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 6pm on 27 July 2011 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6pm on 27 July 2011 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- g) As at 13 June 2011, the Company's issued share capital comprised 35,721,809 Ordinary shares with a further 2,161,285 shares held in treasury. The total number of voting rights in the Company as at 13 June 2011 was 35,721,809. The website referred to above will include information on the number of Ordinary shares and voting rights.
- h) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):
  - You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
  - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- i) A corporation which is a member can appoint one or more corporate representative representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- j) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- k) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's Letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.
- l) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

# BRITISH SMALLER COMPANIES VCT PLC

## FORM OF PROXY

**To be used at the Annual General Meeting of the Company  
to be held at 33 St James Square, London, SW1Y 4JS on 29 July 2011 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 Annual General Meeting or (see notes (2) and (3)) \_\_\_\_\_ 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 29 July 2011 at 12:00 noon and at any adjournment thereof.

Number of Ordinary shares proxy is appointed over \_\_\_\_\_

Please tick here if this proxy is one of multiple appointments being made (see note (2))

My/our proxy is to vote as indicated below. Please indicate with an 'x' how you wish your vote to be cast.

	FOR	AGAINST	WITHHELD
<b>Ordinary Business</b>			
<b>ORDINARY RESOLUTIONS</b>			
1. To receive the Annual Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 3.0 pence per Ordinary share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Ms H Sinclair as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr P S Cammerman as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect Mr C W E R Buchan as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-appoint Grant Thornton UK LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To grant authority to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Special Business</b>			
<b>SPECIAL RESOLUTIONS</b>			
9. To authorise the directors to waiver pre-emption rights in relation to the allotment of shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. To authorise the Company to make purchases of its own shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature \_\_\_\_\_

Dated \_\_\_\_\_

2011

**NOTES**

- The Notice of the Annual General Meeting is set out on pages 59 to 60 of the Annual Report.
- Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
- If you wish to appoint a proxy of your own choice delete the words "the Chairman of the Annual General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
- Any alterations to the Form of Proxy should be initialled.
- To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours before the time appointed for taking the poll, or where the poll is taken not more than 48 hours after it was demanded, be delivered at the meeting at which the demand is made.
- In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
- In the case of a corporation, this form must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
- In the case of joint shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
- Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

BRITISH SMALLER COMPANIES VCT PLC

FORM OF PROXY

To be used at the Annual General Meeting of the Company  
to be held at 33 St James Square, London, SW1Y 4JS on 29 July 2011 at 12:00 noon

Please complete, detach and return the Form of Proxy in the pre-paid envelope provided.

# Advisers to the Company

## Fund Manager and Custodian

### YFM Private Equity Limited

Saint Martins House  
210-212 Chapeltown Road  
Leeds  
LS7 4HZ

## Registrars

### Capita Registrars Limited

The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## Solicitors

### Keeble Hawson LLP

Protection House  
16-17 East Parade  
Leeds  
LS1 2BR

## Stockbrokers

### Singer Capital Markets

One Hanover Street  
London  
W1S 1AX

## Fixed Interest Securities Adviser

### Brewin Dolphin Securities Limited

34 Lisbon Street  
Leeds  
LS1 4LX

## Money Market Fund Adviser

### Prime Rate Capital Management LLP

One Vine Street  
London  
W1J 0AH

## Independent Auditor

### Grant Thornton UK LLP

2 Broadfield Court  
Sheffield  
South Yorkshire  
S8 0XF

## VCT Status Adviser

### PricewaterhouseCoopers LLP

1 Embankment Place  
London  
WC2N 6RH

## Bankers

### The Royal Bank of Scotland plc

27 Park Row  
Leeds  
LS1 5QB

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# British Smaller Companies VCT plc



Saint Martins House  
210-212 Chapeltown Road  
Leeds LS7 4HZ

T: 0113 294 5000  
F: 0113 294 5002  
E: [leeds@yfmepl.com](mailto:leeds@yfmepl.com)