

Annual Report for the year ended
31 March 2012



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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. As at 31 March 2012 the Company had a portfolio of 30 investments, with a cost of £15.3 million and an audited valuation of £24.2 million.

Financial Calendar

Results Announced 14 June 2012

Ex-dividend Date 11 July 2012

Record Date 13 July 2012

Annual General Meeting 20 July 2012

Dividend Paid 17 August 2012

Financial Highlights

Total Return Increases by 1.5%

Your Company's Total Return has increased by 2.6 pence per Ordinary share from 176.2 pence per Ordinary share to 178.8 pence per Ordinary share since March 2011 which includes cumulative dividends paid of 79.2 pence per Ordinary share.

Net Asset Value Before Accounting for Dividends Rises by 2.2%

Following the excellent performance last year, your Company has continued to make progress this year with an overall increase above the opening Net Asset Value of 2.2%. In the year the valuation increased by 2.6 pence per Ordinary share from 120.0 pence per Ordinary share at 31 March 2011 to 122.6 pence per Ordinary share, out of which dividends totalling 23.0 pence per Ordinary share were paid resulting in a year end Net Asset Value of 99.6 pence per Ordinary share.

Net Asset Value Growth

The underlying growth in the investment portfolio was £2.16 million, representing a 7.2% increase. This included £0.07 million of unrealised value growth and £2.09 million profit on disposals.

Dividends for the Year

The total dividend for the year is proposed to be 23.0 pence per Ordinary share which includes a special dividend of 18.0 pence per Ordinary share paid in August 2011 following the partial realisation of the investment in GO Outdoors Limited, an interim dividend of 2.0 pence per Ordinary share paid in September 2011 and a final proposed dividend of 3.0 pence per Ordinary share payable in August 2012.

Original Investor Return of 78.8%

Shareholders who subscribed in the first round following the Company's first offer have received 79.2 pence per Ordinary share of dividends to date with the Total Return of 178.8 pence per Ordinary share representing a 78.8% uplift on their original investment. Taking account of the original 20% upfront tax relief this return increases to 123.5%.

Major Portfolio Success

At the beginning of the financial year, the Company partially realised its investment in GO Outdoors Limited. The sale generated £6.5 million of proceeds, which represented an uplift of £2.1 million on the 31 March 2011 valuation. The Company retains a significant residual investment alongside the new investment partner.

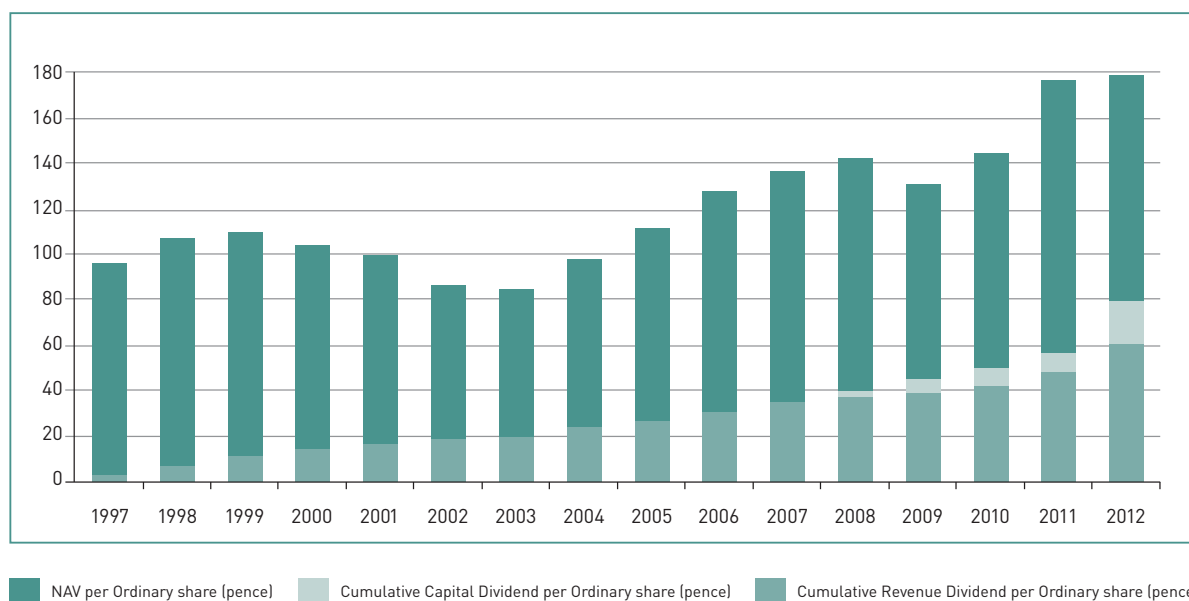
Financial Summary

Five Year Summary

	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2008
Income	£1,236,000	£1,174,000	£1,129,000	£1,173,000	£1,035,000
Profit (loss) before and after taxation	£1,064,000	£10,373,000	£4,202,000	£(3,266,000)	£2,205,000
Profit (loss) per Ordinary share	2.92p	31.38p	13.65p	[10.62]p	8.51p
Dividend per Ordinary share paid in the year	23.0p	6.25p	5.0p	5.0p	5.0p
Cumulative dividend paid per Ordinary share	79.2p	56.2p	50.0p	45.0p	40.0p
Net assets attributed to Ordinary shares	£37,894,000	£41,172,000	£29,008,000	£26,400,000	£26,198,000
Net Asset Value per Ordinary share	99.6p	120.0p	94.4p	85.7p	102.1p
Total Return per Ordinary share	178.8p	176.2p	144.4p	130.7p	142.1p

Total Shareholder Return and Dividend History

The chart below shows how the Total Shareholder 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 the Company's inception.



Summary of Dividends by Revenue and Capital

	Revenue	Capital	Total*
Dividends paid to 31 March 2012 (pence)	60.4	18.8	79.2

*Excluding final dividend proposed of 3.0 pence per Ordinary 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 Ordinary share.

	Offer price	Offer price net of tax	Net Asset Value at 31 March 2012	Cumulative dividends paid since fundraisings ¹	Total Return since fundraisings ¹	Total Return since fundraisings with participation in the DRIS ^{1&2}	IRR ⁴
	Pence	Pence	Pence	Pence	Pence	Pence	%
1995/96 & 1996/97 Tax Year	100.00	80.00	99.60	79.20	178.80	190.05	4.50%
1996/97 & 1997/98 Tax Year	100.00	80.00	99.60	78.10	177.74	188.98	4.80%
1997/98 & 1998/99 Tax Year	105.00	84.00	99.60	74.60	174.24	185.48	4.40%
2004/05 Tax Year (C share ³)	99.50	59.70	112.02	50.30	162.29	180.48	7.80%
2005/06 Tax Year	100.00	60.00	99.60	48.80	148.35	160.08	7.90%
2006/07 & 2007/08 Tax Year	102.50	71.75	99.60	44.30	143.85	152.86	7.90%
2007/08 & 2008/09 Tax Year	106.25	74.38	99.60	39.30	138.85	145.34	7.70%
2009/10 & 2010/11 Tax Year	97.25	68.08	99.60	29.30	128.85	131.09	16.70%
2010/11 & 2011/12 Tax Year	128.00	89.60	99.60	23.00	122.60	122.60	(5.10%) ⁵
2012 Tax Year	99.75	69.83	99.60	0.00	99.60	99.60	n/a

The table below shows the example of a Shareholder who invested £3,000 in the first round. Total Return is equivalent to £5,364, or £5,701 if the Shareholder had opted to participate in the Company's dividend reinvestment scheme since the scheme's inception. The Dividend and Total Return figures in this table exclude the benefits of all tax reliefs.

	Subscription	Subscription net of tax	Net Asset Value at 31 March 2012	Cumulative dividends paid since fundraising ¹	Total Return since fundraising ¹	Total Return since fundraising with participation in the DRIS ^{1&2}
	£	£	£	£	£	£
1995/96 & 1996/97 Tax Year	3,000	2,400	2,988	2,376	5,364	5,701

Notes

1. This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company.
2. Assuming that all dividends were invested under the terms of the current DRIS.
3. NAV has been adjusted for conversion of C Shares into Ordinary shares in May 2007.
4. The IRR calculation has been performed using the Offer price and based on the issue date of 5 April (in the earlier tax year if two years are given) in all cases.
5. The IRR on this fundraising results primarily from issue costs of 5.5%.

Chairman's Statement

I am pleased to present to Shareholders the Annual Report of the Company for the year ended 31 March 2012.

Your Company has followed the excellent performance of 2011 with further progress this year. Total Return (Net Asset Value plus cumulative dividends) rose by 2.6 pence per Ordinary share (1.5%) over the 12 months to 31 March 2012 to 178.8 pence per Ordinary share (176.2 pence per Ordinary share at 31 March 2011). This value gain compares to a reduction in the FTSE SmallCap® Index of 3.2% and the FTSE AiM All-Share® Index of 11.7% over the same period. I am delighted to report that the Company has maintained its position as the top performing Venture Capital Trust over a 3 year period to date as reported by Citywire. The Company was also voted VCT of the Year by Investor Allstars and GO Outdoors was voted VCT Deal of the Year by unquote".

This continued positive progress was achieved against the backdrop of another challenging year for the UK economy, with the escalating debt crisis in the Eurozone and consumers feeling the pinch of the UK Government's austerity measures. However, many of the portfolio companies have benefited from improved efficiencies following tough measures to control costs in recent years and have managed to make good progress during the year. In spite of the significant market uncertainties over the past few years, entrepreneurial management teams continue to plan and invest for the future and with banks still reluctant to lend we are seeing a marked increase in the volume of investment opportunities, which is expected to continue in the year ahead. It is with this in mind that the Board increased the Company's investment capacity via the recent offer for subscription for Ordinary shares which raised a net total of £2.5 million.

Dividends paid in the year totalled 23.0 pence per Ordinary share (19.2% of 31 March 2011 Net Asset Value per Ordinary share) which included a special dividend of 18.0 pence per Ordinary share following the partial disposal of the investment in GO Outdoors Limited in April 2011. Following payment of the dividends the Net Asset Value is 99.6 pence per Ordinary share at 31 March 2012 (120.0 pence per Ordinary share at 31 March 2011). Your Board is recommending that the usual underlying annual dividend of 5.0 pence per Ordinary share is maintained by way of a final dividend of 3.0 pence per Ordinary share in respect of the year to 31 March 2012 (2011: 3.0 pence). If approved, this dividend will be paid on 17 August 2012 to Shareholders on the register at 13 July 2012. 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 its policy of seeking to improve on this underlying dividend as and when profitable cash realisations allow.

Investment Portfolio

Over the year to 31 March 2012 the total capital value growth from the opening portfolio was £2.16 million, or 7.2%, made up of £0.07 million of unrealised value growth and £2.09 million profit on disposals. Of the profit on disposals, £2.07 million is attributed to the partial disposal of roughly one third of the Company's holding in GO Outdoors Limited to 3i Group plc for £6.54 million. Although net unrealised growth is small,

significant progress has been made across the portfolio, most notably security software provider Deep-Secure Ltd increased in value by £1.21 million and niche manufacturer President Engineering Group Limited increased in value by £1.69 million, both recording strong profit growth. Uplifts were also noted in respect of port operator RMS Group Holdings Limited (up £0.22 million) and recruitment specialist Harris Hill Limited (up £0.19 million). These and other value gains were offset by a £3.56 million reduction in the residual investment valuation of GO Outdoors Limited as a result of a downturn in the retail sector, although the medium term prospects for this investment still look strong.

The stockmarkets have been quite volatile during the year but the quoted investment portfolio finished the year with an overall value reduction of only £0.06 million. Significant gains were seen on coal services and logistics group Hargreaves Services plc (up £0.17 million), medical diagnostics group EKF Diagnostics Holdings plc (up £0.13 million) and business software services provider Tikit Group plc (up £0.10 million).

The year to 31 March 2012 saw an increase in investment activity with a total of £2.53 million invested (£2.21 million in the year to 31 March 2011 excluding the £0.75 million further investment into acquisition vehicle Adex Bridge Investments Limited). This included four new investments totalling £1.97 million and four further investments totalling £0.26 million. In addition a further £0.30 million was invested into North Western Investments Limited to fund the buy-out of Displayplan Holdings Limited.

The four new investments were:

- £0.61 million investment made into Bagel Nash Limited to fund the buy-out of the bakery and successful branded retail chain.
- £0.38 million invested to fund the growth plans of PowerOasis Limited, a leading provider of power management and energy efficient solutions to international mobile telecommunications operators.
- £0.38 million of growth capital invested into TeraView Limited, a provider of products with applications in the electronics, medical analysis, solar power and security sectors based on its innovative terahertz technology.
- £0.60 million investment made into the buy-out of established payroll and HR software services provider Selima Limited.

There have been a number of disposals during the year, the most notable being the partial disposal of the Company's investment in GO Outdoors Limited to 3i Group plc in April 2011. The Company received proceeds of £6.54 million representing a profit of £2.07 million compared to the previous carrying value and a profit of £6.49 million compared to the original cost of the investment. This allowed the Company to return to its Shareholders a tax free special dividend of 18.0 pence per Ordinary share. The Company has a residual 14.09% shareholding in GO Outdoors Limited. Continued strong levels of profit enabled the remaining preference shares in Waterfall Services Limited to be redeemed (£0.23 million) and RMS Group Holdings Limited to repay the remaining shareholder loan (£0.36 million). Further disposals were made across a number of AiM quoted companies including

Hargreaves Services plc, Tikit Group plc, Patsystems plc, Belgravium Technologies plc and Straight plc. The sale of AiM shares during the year generated £0.56 million of proceeds, a gain of £0.02 million above the previous carrying value and delivered a profit of £0.12 million compared to original cost.

The year also saw the disposal of acquisition vehicle Adex Bridge Investments Limited which reinvested its £1.75 million value into specialist engineering group Seven Technologies Limited just after the 31 March 2012 year end. The £1.0 million loan to 4G Capital Limited was also repaid in the period, recovering proceeds after costs marginally under the £1.0 million carrying value.

In total proceeds of £10.4 million were received, generating a profit on previous carrying values of £2.09 million and representing a £6.60 million gain on original cost.

The portfolio also generated income during the year of £0.93 million (2011: £0.72 million) from interest and dividend payments, resulting in a total portfolio return for the year before administrative fees of £3.09 million (2011: £11.28 million).

Financial Results

The result for the financial year ended 31 March 2012 was a pre-tax profit of £1.06 million which comprised profits in respect of capital and revenue of £0.32 million and £0.74 million respectively, as compared to a pre-tax profit of £10.37 million in 2011 (which comprised a capital profit of £9.67 million and a revenue profit of £0.70 million).

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

	Pence per Ordinary share
31 March 2011	120.0
Total increase in the year	2.6
	122.6
Dividends paid in year	(23.0)
31 March 2012	99.6

Cash and cash equivalents, fixed term bonds and gilt investments at the end of the year amounted to £14.87 million, representing 39.2% of Net Asset Value (2011: £11.65 million representing 28.3% of Net Asset Value). A further £1.4 million of net proceeds were received after the year end in respect of the successful fundraising offer noted below.

Under the incentive scheme to reward the Fund Manager a payment of £1,415,058 (equivalent to 3.7 pence per Ordinary share) is to be made in respect of the year ended 31 March 2012. This has been fully accrued in the accounts and payment will be made following the Annual General Meeting on 20 July 2012.

Shareholder Communications and Fundraising

At the beginning of the year the Company increased its investment capacity through a linked offer with British Smaller Companies VCT2 plc launched in December 2010. During the financial year a total of 1,421,329 new Ordinary shares (at 128 pence per Ordinary share) were issued relating to this linked offer. Taking into account the shares issued prior to the 31 March 2011 year end the total new funds raised by the Company under the linked offer amounted to £4.41 million.

Towards the end of the financial year, the Company increased its investment capacity further through an Offer for Subscription of up to 3,788,310 new Ordinary shares at a price of 99.75 pence per Ordinary share. I am pleased to report that on 20 March 2012 the Company allotted 1,080,772 new Ordinary shares and shortly following the year end, on 5 April 2012, a further 1,531,778 new Ordinary shares were allotted, with the Company raising net proceeds totalling £2.5 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 Company's Fund Manager, YFM Private Equity Limited, where investors are invited to meet members of the Board, representatives from the Fund Manager and the Chief Executives 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 2012 at the Royal College of Surgeons. Your Board continues to remain committed to these events which we believe are useful in increasing Shareholders' awareness of the Company's activities.

The Board also 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 Ordinary share be paid on 17 August 2012 to Shareholders on the register as at 13 July 2012.

Your Board continues to promote the Company's dividend reinvestment scheme ("DRIS"). Your Board believes that the combination of achieving a consistent dividend, growth in Net Asset Value and tax relief on reinvested dividends remains an attractive investment proposition. During the year a total of 1.43 million new Ordinary shares were issued under the scheme. This represented 16.4% of the dividends paid (20% excluding the special dividend).

During the year, the Company purchased a total of 199,200 Ordinary shares at an average price of 91.21 pence per Ordinary share (2011: 778,448 shares at an average price of 88.73 pence per Ordinary share). The existing buy-back authority currently expires on 20 July 2012 and is proposed to be extended by 3 years or until the date of the 2015 Annual General Meeting, whichever is the earlier. A resolution to this effect will be proposed at the Company's Annual General Meeting this year.

The Annual General Meeting of the Company will be held at 12:00 noon on 20 July 2012 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 63.

Regulation

Venture Capital Trusts have had a positive influence and benefit on the flow of capital to the UK's smaller businesses and it is welcome that this has been recognised by the current UK Government.

Following the issue of the Draft Finance Bill 2012 on 29 March 2012 investments undertaken by the Company will be subject to new legislation.

Following EU approval welcome changes have been made to the "qualifying company" limits effective from 6 April 2012 subject to the granting of Royal Assent. These are summarised as follows:

- the employee limit will increase from 50 to 250 for investee companies;
- an increase in the size threshold of gross assets to £15 million before investment from £7 million; and
- that the maximum amount that an investee company can receive from VCTs and other State Aid sources will now be £5 million.

Funds raised by VCTs after 5 April 2012 may not be used to finance buy-outs or otherwise to acquire existing shares.

The Company does not have any funds to which the buy-outs rule applies, with all funds raised on or prior to 5 April 2012.

These changes are expected to significantly increase the level and scale of investment opportunities available to the Company over the coming years.

Subsequent Events

On 3 April 2012 the Company invested £2.5 million into the Northern Ireland based specialist engineering group Seven Technologies Limited. Also on 3 April 2012 £1.0 million was invested into the acquisition vehicle Fairlight Bridge Limited, focused on turnaround opportunities in and around the Midlands.

On 5 April 2012 the Company allotted 1,531,778 new Ordinary shares of 10 pence each at a price of 99.75 pence per Ordinary share in respect of valid subscriptions received and accepted by the Company on or after 21 March 2012 and by 11:00 am on Thursday 5 April 2012 pursuant to the Offer for Subscription ("the Offer") launched on 6 March 2012. In total the Company raised net proceeds of £2.5 million under the Offer, which closed on 5 April 2012.

Outlook

It is encouraging to see many portfolio businesses reporting improved results feeding through to increased valuations. The portfolio remains well funded with many companies having taken the opportunity to improve efficiency and capitalising on market changes resulting from the uncertain economic conditions. This Company is well placed both to add to the diversity of its investment portfolio and continue to support existing portfolio companies as they seek to expand organically and through selective acquisitions.

The Board believes that the upcoming period is again likely to present good investment opportunities, both for existing portfolio businesses and for new investments. It is pleasing that in the new financial year we are already reporting an increase in investment activity and the Fund Manager is seeing an increase in new investment enquiry levels. The relaxation of the restrictions governing VCT qualifying investments is also expected to increase the number and scale of attractive opportunities over the coming years. It was with this in mind that we increased the investment capacity of the Company so as to be in a strong position to take advantage of good opportunities as they arise. The strong long-term track record of the Company now provides an excellent platform for future fund raising and investment activity.

I would like to take this opportunity to thank all Shareholders for their continued support, which we greatly value.



Helen Sinclair
Chairman

13 June 2012

Fund Manager's Review

Portfolio Valuation at 31 March 2012 and disposal history up to 31 March 2012

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost £000	Realised Proceeds to Date* £000	Investment Valuation at 31 March 2012 £000	Returns to Date £000
Current Investments							
GO Outdoors Limited	May-98	Sheffield	Consumer Products	556	6,995	5,504	12,499
President Engineering Group Ltd	Sep-10	Sheffield	Manufacturing	1,000	-	2,687	2,687
Deep-Secure Ltd	Dec-09	Malvern	Software	1,000	-	2,298	2,298
Waterfall Services Limited	Feb-07	Warrington	Support Services	1,000	233	1,503	1,736
Displayplan Holdings Limited (formerly North Western Investments Limited)	Feb-10	Baldock, Herts	Retail	1,300	-	1,300	1,300
Fishawack Limited	Jan-08	Knutsford	Communications	878	-	896	896
Harvey Jones Holdings Limited	May-07	London	Manufacturing	777	-	783	783
Hargreaves Services plc	Dec-07	Durham	Manufacturing	469	330	757	1,087
Lightmain Company Limited	Mar-10	Rotherham	Manufacturing	600	-	686	686
Harris Hill Holdings Limited	Jun-07	Kingston-upon-Thames	Recruitment	600	-	653	653
Bagel Nash Group Limited	Jul-11	Leeds	Food Retail	611	-	611	611
Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	-	608	608
Selima Limited	Mar-12	Sheffield	Software	600	-	600	600
K3 Business Technology Group plc	Apr-08	Manchester	Software	402	-	585	585
EKF Diagnostics Holdings plc	Jul-10	London	Pharmaceuticals	366	105	536	641
Pressure Technologies plc	Jun-07	Sheffield	Industrial	425	-	454	454
Mattioli Woods plc	Nov-05	Leicester	Support Services	326	-	449	449
Tikit Group plc	Jun-01	London	Software	226	187	438	625
Primal Pictures Limited	Mar-01	London	Healthcare	500	93	406	499
RMS Group Holdings Limited	Jul-07	Goole	Industrial	1,050	897	405	1,302
PowerOasis Limited	Nov-11	Swindon	Telecommunications	375	-	375	375
TeraView Limited	Dec-11	Cambridge	Electronics	375	-	375	375
Cambridge Cognition Limited	May-02	Cambridge	Software	325	-	330	330
Dryden Human Capital Group Limited (formerly Darwin Rhodes Group Limited)	Apr-08	London	Recruitment	488	-	319	319
Woodspeen Training Group plc	Dec-10	London	Training Provider	250	-	165	165
Vianet Group plc (formerly Brutines Group plc)	Oct-06	Stockton-on- Tees	Software	163	-	140	140
Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	823	-	139	139
Straight plc	Feb-04	Leeds	Industrial	341	139	107	246
Belgravium Technologies plc	Oct-05	Bradford	Software	200	22	91	113
4G Capital Limited	Mar-10	North-West	Software	1,000	984	-	984
				17,526	9,985	24,200	34,185
Full disposals since March 2002				13,942	18,572	-	18,572
Full disposals prior to March 2002				6,394	3,246	-	3,246
Total				37,862	31,803	24,200	56,003

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

Reconciliation of Investment Portfolio movement since 31 March 2011

Name of Company	Investment Valuation at 31 March 2011 £000	Disposals £000	Additions £000	Valuation gains (losses) £000	Investment Valuation at 31 March 2012 £000
Current Investments					
GO Outdoors Limited	13,521	(4,461)	-	(3,556)	5,504
President Engineering Group Ltd	1,000	-	-	1,687	2,687
Deep-Secure Ltd	1,092	-	-	1,206	2,298
Waterfall Services Limited	1,821	(233)	-	(85)	1,503
Displayplan Holdings Limited (formerly North Western Investments Limited)	1,000	-	300	-	1,300
Fishawack Limited	811	-	103	(18)	896
Harvey Jones Holdings Limited	699	-	-	84	783
Hargreaves Services plc	869	(283)	-	171	757
Lightmain Company Limited	569	-	-	117	686
Harris Hill Holdings Limited	465	-	-	188	653
Bagel Nash Group Limited	-	-	611	-	611
Bluebell Telecom Group Limited	500	-	-	108	608
Selima Limited	-	-	600	-	600
Other investments	7,599	(3,368)	911	172	5,314
Total Movement	29,946	(8,345)	2,525	74	24,200

Investment Portfolios

This section describes the business of the active companies in the portfolio in order of valuation at 31 March 2012. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed below.

GO Outdoors Limited

Sheffield
www.gooutdoors.co.uk

Cost	£113,492	
Valuation	£5,504,000	
Dates of investment	May 1998, March 2002 and April 2007	
Equity held	14.09%	
Valuation basis	Earnings multiple	
Dividends received	£297,911 (2011: £190,606)	
52 weeks ended 30 January (2010: 53 weeks ended)	30 Jan 2011	30 Jan 2010
	£million	£million
Sales	115.24	75.43
EBITDA	6.14	4.95
Profit before tax	5.20	4.25
Retained profits	8.55	4.89
Net assets	12.93	10.32

GO Outdoors is a retailer of outdoor clothing and equipment. The original investment of £500,000 in May 1998 supported the buy-out with a second investment in March 2002 to support the company's first acquisition. The company has continued its expansion opening a further ten stores in the year to January 2012, taking the total number of outlets to thirty 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 while at the same time purchasing approximately one-third of the Company's investment.

President Engineering Group Ltd

Sheffield
www.conflo.com / www.bestobellvalves.com

Cost	£1,000,000	
Valuation	£2,687,000	
Date of investment	September 2010	
Equity held	20.00%	
Valuation basis	Earnings multiple	
Interest	£81,000 (2011: £37,966)	
Year ended 31 October		2011
		£million
Sales		15.98
EBITA		2.78
Profit before tax		1.95
Retained profits		1.23
Net assets		1.42

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 into developed and developing economies under the Conflow brand and also cryogenic valves sold to the oil and gas sector under the Bestobell brand. The Company backed a management buy-out by the existing management team. Since that time the company has been extremely successful in continuing the international development of its brands supported by strong underlying market growth.

Deep-Secure Ltd

Malvern
www.deep-secure.com

Cost	£1,000,000	
Valuation	£2,298,000	
Date of investment	December 2009	
Equity held	12.86%	
Valuation basis	Earnings multiple	
Interest	£72,195 (2011: 54,000)	
Year ended 31 December	2011	2010
	£million	£million
Sales	3.72	2.61
EBITA	1.5	0.63
Profit (loss) before taxation	0.24	(0.50)
Retained losses	(0.26)	(0.50)
Net assets (liabilities)	0.14	(0.12)

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, with main customers being international governments, cross border forces and defence sectors. Profit levels have grown strongly since the Company's investment in 2009.

Waterfall Services Limited

Cost	£766,795
Valuation	£1,503,000
Date of investment	February 2007
Equity held	19.53%
Valuation basis	Earnings multiple
Dividends received	£17,452 (2011: 23,333)
Interest	£60,128 (2011: 53,333)

Year ended 31 March	2011	2010
	£million	£million
Sales	43.26	36.33
EBITA	2.10	1.65
Profit before tax	1.30	0.85
Retained profits	1.57	0.83
Net assets	2.45	1.59

Waterfall is a contract caterer specialising in the care home sector. Since the original investment in 2007 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.

Displayplan Holdings Limited (formerly North Western Investments Limited)

Cost	£1,300,000
Valuation	£1,300,000
Dates of investment	February 2010 and January 2012
Equity held	22.75%
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£25,644 (2011: £nil)

13 months ended 31 December 2010
(2009: 12 months ended 30 November)

	2010	2009
	£million	£million
Sales	13.11	11.86
Profit (loss) before taxation	0.08	(0.03)
EBITA (LBITA)	0.08	(0.03)
Retained profits	0.81	0.76
Net assets	0.82	0.77

The financial results above are for the Displayplan business acquired through the management buy-out.

In January 2012 a further investment of £0.3 million was made into North Western Investments Limited to support the management buy-out of Displayplan Holdings Limited. **Displayplan Holdings Limited** provides a complete retail display consultancy service from concept through design and sourcing to finished product delivery to established branded product manufacturers and UK retailers. Typical products include bespoke point of purchase (POP) stands in high street retail stores.

Fishawack Limited

Cost	£878,260
Valuation	£896,000
Dates of investment	January 2008, December 2009, May 2010 and June 2011
Equity held	8.39%
Valuation basis	Earnings multiple
Interest	£7,556 (2011: £53,815)

Year ended 31 March	2011 £million	2010 £million
Sales	7.87	4.60
EBITA	0.95	0.66
Loss before tax	(0.15)	(0.44)
Retained losses	(1.11)	(0.82)
Net liabilities	(0.34)	(0.19)

Fishawack is an established specialist healthcare communications agency focusing on the medical sector, with a strong reputation for providing specialist communications consultancy services for many of the world's top global pharmaceutical companies. Three acquisitions have been made, of its US partner, a UK medical communications business and a Swiss based medical communications business. This has significantly increased its international reach and service capacity as well as broadening its customer base. Fishawack continues to seek further sales growth, both organically and through acquisition.

Harvey Jones Holdings Limited

Cost	£777,143
Valuation	£783,000
Date of investment	May 2007
Equity held	6.88%
Valuation basis	Earnings multiple
Interest	£69,943 (2011: £69,943)

Year ended 31 December	2011 £million	2010 £million
Sales	12.24	10.87
EBITA	0.99	0.98
Profit before tax	0.28	0.27
Retained profits	0.20	0.09
Net assets	0.74	0.63

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 maintain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to 24 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.

Hargreaves Services plc

Cost	£316,460
Valuation	£757,000
Dates of investment	December 2007, January, February and March 2008
Equity held	0.23%
Valuation basis	Quoted bid price
Dividends received	£12,540 (2011: 13,277)

Year ended 31 May	2011 £million	2010 £million
Sales	552.26	459.78
EBITA	46.65	38.83
Profit before tax	36.93	30.72
Retained profits	74.16	51.81
Net assets	114.65	89.78

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 two collieries and a coke plant. The planning consent received in 2011 to begin production at the Tower Colliery in Wales was a significant step and should underpin further profit growth. Hargreaves Services issued a trading update on 28 May 2012 pertaining to an expected reduction in the 2012/13 profits of between £12 million and £16 million following an incident at Maltby.

Lightmain Company Limited

Rotherham
www.lightmain.co.uk

Cost	£600,000
Valuation	£686,000
Date of investment	March 2010
Equity held	30.00%
Valuation basis	Earnings multiple
Interest	£53,718 (2011: £53,670)

Year ended 30 September	2010 £million	2009 £million
Retained profits	1.16	0.96
Net assets	1.16	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 company has some exposure to local authority spending reviews it also generates significant revenues from other sources.

Harris Hill Holdings Limited

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

Cost	£600,000
Valuation	£653,000
Date of investment	June 2007
Equity held	10.70%
Valuation basis	Earnings multiple
Interest	£46,200 (2011: £43,987)

Year ended 31 March	2011 £million	2010 £million
Sales	4.35	3.34
EBITA	0.49	0.03
Loss before tax	(0.21)	(0.78)
Retained losses	(2.39)	(2.12)
Net liabilities	(1.91)	(1.64)

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 years at the level of earnings before interest, tax and amortisation the business has remained profitable and has seen a recovery in sales and profits since 2009.

Bagel Nash Group Limited

Leeds
www.bagelnash.com

Cost	£611,000
Valuation	£611,000
Date of investment	July 2011
Equity held	6.80%
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£39,113 (2011: £nil)

Year ended 30 April	2011 £million	2010 £million
Sales	n/a	n/a
EBITA	n/a	n/a
Profit before tax	n/a	n/a
Retained profits	1.28	1.10
Net assets	1.28	1.10

Bagel Nash is an established operator chain of 11 espresso and bagel bars in Leeds, Manchester, York and Huddersfield and also runs a bakery supplying products to its own stores and the UK wholesale trade. An experienced team completed the buy-in during July 2011 and value growth is expected via a retail rollout strategy.

Bluebell Telecom Group Limited

Cost	£500,000
Valuation	£608,000
Date of investment	September 2010
Equity held	6.75%
Valuation basis	Earnings multiple
Interest	£35,005 (2011: £20,420)

Year ended 30 April	2011
	£million
Sales	7.00
EBITA	0.90
Loss before tax	(0.17)
Retained losses	(0.27)
Net assets	4.58

Bluebell is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's investment in 2010 was made to fund the acquisition of Callstream, which has been successfully integrated, and a further acquisition of Worldwide ISDN was completed in 2011.

Selima Limited

Cost	£600,000
Valuation	£600,000
Date of investment	March 2012
Equity held	12.50%
Valuation basis	Price of recent investment, reviewed for change in fair value
Interest	£2,604 (2011: £nil)

The first set of audited financial statements for Selima Limited following the investment by the Company is not yet due.

Selima which is headquartered in Sheffield with over 40 staff, was established in 1983. Selima has considerable experience of deploying comprehensive payroll, HR and expenses solutions and bureau services that save organisations significant sums of money. Selima's customers include Bristol City Council, Young's Brewery and Greater Manchester Police. The investment will primarily be used for expanding the business including improvements to services for new and existing clients and the introduction of new, innovative products.

K3 Business Technology Group plc

Cost	£402,094
Valuation	£585,000
Date of investment	April 2008
Equity held	1.05%
Valuation basis	Quoted bid price
Dividends received	£2,250 (2011: £2,250)

For the year ended 30 June 2011 and the 18 months ended 30 June 2010

	2011	2010
	£million	£million
Sales	52.80	59.78
EBITA	8.64	9.05
Profit before tax	4.91	4.77
Retained profits	15.81	11.33
Net assets	82.91	63.41

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.

EKF Diagnostics Holdings plc

London
www.ekf-diagnostic.de

Cost	£313,492	
Valuation	£536,000	
Dates of investment	July 2010 and June 2011	
Equity held	0.75%	
Valuation basis	Quoted bid price	
Year ended 31 December	2011	2010
	£million	£million
Sales	21.66	6.48
EBITA (LBITA)	0.28	(1.12)
Loss before tax	(2.36)	(2.09)
Retained losses	(5.66)	(3.69)
Net assets	58.73	35.98

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. EKF is well funded and has made some good acquisitions and commercial progress.

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost	£425,421	
Valuation	£454,000	
Dates of investment	June and July 2007	
Equity held	2.50%	
Valuation basis	Quoted bid price	
Dividends received	£20,414 (2011: £20,414)	
Year ended 1 October (2010: 2 October)	2011	2010
	£million	£million
Sales	23.13	21.71
EBITA	1.03	3.69
Profit before tax	0.58	3.51
Retained profits	9.61	10.00
Net assets	15.54	15.91

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 through acquisitions into other sectors, such as biogas and defence. The balance sheet remains ungeared with £2-3 million of surplus cash.

Mattioli Woods plc

Leicester
www.mattioli-woods.com

Cost	£325,922	
Valuation	£449,000	
Dates of investment	November 2005, February, March and October 2006 and July 2007	
Equity held	1.36%	
Valuation basis	Quoted bid price	
Dividends received	£12,700 (2011: £11,221)	
Year ended 31 May	2011	2010
	£million	£million
Sales	15.36	13.68
EBITA	4.87	4.59
Profit before tax	4.55	4.27
Retained profits	12.87	10.34
Net assets	22.10	18.98

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.

Tikit Group plc

Cost	£150,109
Valuation	£438,000
Dates of investment	June 2001, March and November 2006, January and April 2007
Equity held	0.88%
Valuation basis	Quoted bid price
Dividends received	£10,680 (2011: £11,959)

Year ended 31 December	2011 £million	2010 £million
Sales	26.35	26.88
EBITA	4.45	3.43
Profit before tax	3.52	2.95
Retained profits	11.92	9.69
Net assets	18.17	16.16

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, which is ungeared, has continued to perform strongly with the business model transitioning to a higher proportion of recurring revenues.

Primal Pictures Limited

Cost	£467,792
Valuation	£406,000
Date of investment	March 2001
Equity held	3.90%
Valuation basis	Earnings multiple

Year ended 31 December	2010 £million	2009 Restated £million
Sales	3.30	2.54
EBITA	0.37	0.62
Profit before tax	0.69	0.30
Retained losses	(3.84)	(4.52)
Net liabilities	(1.07)	(1.12)

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.

RMS Group Holdings Limited

Cost	£180,044
Valuation	£405,000
Dates of investment	July 2007 and August 2008
Equity held	8.10%
Valuation basis	Earnings multiple
Interest	£41,134 (2011: £65,346)

Year ended 31 December	2011 £million	2010 £million
Sales	27.66	25.46
EBITDA	2.79	2.64
Profit before tax	0.99	0.61
Retained profits (losses)	0.76	(0.03)
Net assets	5.43	4.65

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 now repaid the original loan instrument in full.

PowerOasis Limited

Cost	£375,000
Valuation	£375,000
Date of investment	November 2011
Equity held	2.70%
Valuation basis	Price of recent investment, reviewed for change in fair value

Year ended 31 January	2011	2010
	£million	£million
Sales	n/a	n/a
EBITA	n/a	n/a
Profit before tax	n/a	n/a
Retained losses	(2.98)	(1.57)
Net assets	0.68	0.17

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

PowerOasis is a leader in power management and energy efficiency solutions for wireless operators. It has developed an innovative wireless network power management software platform that remotely monitors, controls and manages the supply of power to base station sites that lack a reliable electricity grid in the Middle East and Africa. PowerOasis is an energy partner for two of the world's largest network equipment providers and some of the world's largest mobile telecom operators, which use PowerOasis technology to reduce the operating cost of power while dramatically improving network availability.

TeraView Limited

Cost	£375,000
Valuation	£375,000
Date of investment	December 2011
Equity held	7.50%
Valuation basis	Price of recent investment, reviewed for change in fair value

Year ended 30 April	2011	2010
	£million	£million
Sales	2.95	2.12
LBITA	(0.86)	(1.01)
Loss before tax	(5.75)	(5.63)
Retained losses	(32.01)	(26.49)
Net liabilities	(18.72)	(13.26)

Teraview is a pioneer and leader in Terahertz diagnostic and inspection systems and solutions. The investment will allow TeraView to accelerate the growth of its semiconductor, industrial and analytical business in Asia, the US and the EU. Key areas for focus include sales and marketing in Asia, as well as further product development in its semiconductor inspection market and enhancement of support and collaborations with existing customers.

Cambridge Cognition Limited

Cost	£325,000
Valuation	£330,000
Date of investment	May 2002
Equity held	3.30%
Valuation basis	Price of recent investment, reviewed for change in fair value

Year ended 31 December	2010	2009
	£million	£million
Sales	4.83	3.31
EBITA (LBITA)	0.98	(0.30)
Loss before tax	(0.74)	(0.52)
Retained losses	(6.17)	(6.91)
Net liabilities	(0.25)	(0.80)

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental health conditions. It received funding from a range of investors to assist with commercialising its intellectual property. A profitable business model has been established providing its tests for use in evaluating clinical trials.

Dryden Human Capital Group Limited (formerly Darwin Rhodes Group Limited)

London
www.drydenhumancapital.com

Cost	£488,160	
Valuation	£319,000	
Dates of investment	April 2008 and April 2011	
Equity held	7.90%	
Valuation basis	Earnings multiple	
Dividends received	£30,316 (2011: £nil)	
Year ended 31 March	2011	2010
	£million	£million
Sales	9.36	4.95
EBITA (LBITA)	1.17	(0.44)
Profit (loss) before tax	1.02	(0.58)
Retained losses	(1.13)	(1.89)
Net assets	3.88	3.19

Dryden Human Capital 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 breadth of its activities both in terms of sectors and geographic diversity have assisted in managing these pressures. The business has no debt. Market conditions in recent months have improved significantly since early 2010.

Woodspeen Training Group plc

London
www.woodspeentraining.com

Cost	£249,966	
Valuation	£165,000	
Date of investment	December 2010	
Equity held	3.90%	
Valuation basis	Quoted bid price	
Year ended 31 March	2011	2010
	£million	£million
Sales	5.71	5.11
(LBITA) EBITA	(1.08)	0.80
(Loss) profit before tax	(1.26)	0.62
Retained (losses) profits	(1.00)	0.44
Net assets	5.86	4.74

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.

Vianet Group plc (formerly Brulines Group plc)

Stockton-on-Tees
www.vianet.co.uk

Cost	£162,530	
Valuation	£140,000	
Dates of investment	October 2006 and July 2007	
Equity held	0.47%	
Valuation basis	Quoted bid price	
Dividends received	£7,464 (2011: £5,165)	
Year ended 31 March	2011	2010
	£million	£million
Sales	24.28	19.83
EBITA	3.93	4.50
Profit before tax	3.20	4.03
Retained profits	9.00	7.64
Net assets	22.44	21.04

Vianet Group is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licensed on-trade. The company 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, leading Vianet to diversify into related markets, such as petrol forecourts.

Ellfin Home Care Limited

Oldham
www.ellfin.com

Cost	£823,167	
Valuation	£139,000	
Dates of investment	December 2007, October 2008 and June 2010	
Equity held	16.02%	
Valuation basis	Earnings multiple	
Dividends received	£nil (2011: £nil)	
Interest	£nil (2011: (£42,870))	
12 months ended 31 October	2010	2009
	£million	£million
Sales	3.89	4.36
EBITA	0.24	0.65
Loss before tax	(0.52)	(0.02)
Retained losses	(0.63)	(0.09)
Net (liabilities) assets	(0.04)	0.48

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, over a five year period, a number of home care businesses forming a group based in the North West of England. To date two acquisitions have been completed.

Straight plc

Leeds
www.straight.co.uk

Cost	£224,778	
Valuation	£107,000	
Dates of investment	February 2004, January, March and November 2005 and May 2006	
Equity held	1.83%	
Valuation basis	Quoted bid price	
Dividends received	£5,792 (2011: £4,991)	
Year ended 31 December	2011	2010
	£million	£million
Sales	27.98	30.66
(LBITA) EBITA	(0.52)	1.67
(Loss) profit before tax	(0.79)	1.47
Retained profits	2.23	2.77
Net assets	9.77	10.29

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

Belgravium Technologies plc

Bradford
www.belgravium.com

Cost	£165,000	
Valuation	£91,000	
Date of investment	October 2005	
Equity held	1.17%	
Valuation basis	Quoted bid price	
Dividends received	£nil (2011: £nil)	
Year ended 31 December	2011	2010
	£million	£million
Sales	11.16	8.20
EBITA	1.18	0.63
Profit before tax	1.02	0.43
Retained profits (losses)	0.82	(0.06)
Net assets	10.90	10.02

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.

Fund Manager's Review

Introduction

This year follows the excellent results for 2011 which saw the strongest overall return on opening value since the Company was first established in 1995. It is pleasing to report that further progress has been made in the year to 31 March 2012 with completion of the partial disposal of the investment in GO Outdoors Limited and strong profit growth achieved by several other portfolio businesses.

In spite of the macro-economic environment continuing to present challenges, several portfolio businesses still achieved strong results. Most notably, niche engineering group President Engineering Group Ltd completed the first year since the Company's investment with profits well ahead of budget. Specialist IT communications supplier Deep-Secure Ltd saw profits double in the year to 31 December 2011 compared to the previous year. Further growth in volumes and profits at logistics and stevedoring group, RMS Group Holdings Limited, enabled all of the remaining loan to be repaid early. The Company was also able to profitably dispose of approximately one third of its holding in Hargreaves Services plc.

Investment activity levels are starting to pick up and the Company has made four new investments during the year, together with four follow on investments to support existing companies in the portfolio.

Cash and cash equivalents, fixed term bonds and gilt investments at 31 March 2012 were £14.87 million, representing 39.2% of net assets. This compares to £11.65 million and 28.3% at 31 March 2011. A further £1.4 million of net proceeds was received by the Company following the year end in respect of the offer for subscription launched by the Company on 6 March 2012, providing additional liquidity. The Company remains in a strong cash position to meet anticipated future investment opportunities.

Portfolio Performance

Overall this year has seen general progress made across the whole portfolio against the backdrop of tough economic conditions including the Euro-region sovereign debt crisis and the implementation of UK austerity measures. UK GDP growth is widely forecast to be low for some years to come. However, for investors capable of taking a medium term view over 5-10 years, these conditions present a backdrop for some good investment opportunities, with the banks still reluctant to lend. 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 decreased by £5.75 million to a total of £24.20 million at 31 March 2012 (£29.95 million at 31 March 2011). Netting off the new investment of £2.53 million and the value of investments sold of £8.34 million, the net portfolio value increased

over the year by £0.07 million. This breaks down into an increase of £0.13 million in the unquoted portfolio and a decrease of £0.06 million in the quoted portfolio.

	Total portfolio £000
Opening value	29,946
Additions	2,525
Valuation changes	
– Unquoted	134
– Quoted	(60)
Value sold	(8,345)
31 March 2012	24,200

Following the £6.54 million partial disposal of roughly a third of the Company's holding in outdoor retail group GO Outdoors Limited, the valuation of the residual holding reduced by £3.56 million. This fall, which equates to a drop of 39%, is a result of the general downturn in the retail sector which has reduced earnings multiples used in the valuation calculation. Although still at a healthy level, profits were below budget and also impacted by aggressive cost cutting at competitor Blacks Leisure Group plc which eventually went into administration in January 2012. Following its UK rollout plan GO Outdoors opened ten new stores during the year and the prospects for value growth remain strong over the medium term. Given the reduction in the valuation of GO Outdoors, the overall growth in unrealised value over the year demonstrates the strong performance by many other unquoted portfolio investments.

As mentioned above, significant unrealised value gains were made in Deep-Secure Ltd (up £1.21 million) and President Engineering Group Ltd (up £1.69 million) following strong profit growth. Other significant value movements include port operator RMS Group Holdings Limited (up £0.22 million), recruitment specialist Harris Hill Holdings Limited (up £0.19 million), telecommunications service provider Bluebell Telecom Group Limited (up £0.11 million) and playground equipment manufacturer Lightmain Company Limited (up £0.12 million). Apart from the value fall in GO Outdoors Limited, only three other unquoted investments saw values fall and none by significant levels. It is particularly encouraging to see several of the cyclical businesses seeing profit improvement and we hope this continues as market conditions improve further.

The quoted portfolio has remained relatively stable overall. Key unrealised improvements were achieved at coal services and logistics group Hargreaves Services plc (up £0.17 million), medical diagnostics group EKF Diagnostics Holdings plc (up £0.13 million) and business software service provider Tikit Group plc (up £0.10 million), although the residual value of the holding in Hargreaves Services plc has fallen back since the year end.

In accordance with IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. The outcome of this sensitivity analysis can be found in note 7 on page 52 and note 19 on page 59.

The investment portfolio held at the year end can be analysed into the following categories:

AiM Listed Investments	
Non Qualifying	£1.19 million
Qualifying	£2.53 million
	£3.72 million
Unquoted Investments	
Non Qualifying	£ 0.90 million
Qualifying	£19.58 million
	£20.48 million
Total Investments	£24.20 million

Investment Activity

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

	£million
<i>New Investments</i>	
Bagel Nash Group Limited	0.61
PowerOasis Limited	0.38
TeraView Limited	0.38
Selima Limited	0.60
<i>Follow-on Investments</i>	
Dryden Human Capital Group Limited (formerly Darwin Rhodes Group Limited)	0.04
Fishawack Limited	0.10
EKF Diagnostics Holdings plc	0.12
Displayplan Holdings Limited (formerly North Western Investments Limited)	0.30
Total	2.53

During the year new investments were made in four businesses. In July 2011 the Company invested £0.61 million, alongside a further £0.41 million from British Smaller Companies VCT2 plc, to support a proven management team in the buy-in of Bagel Nash Group Limited, a bakery and successful espresso and bagel retail chain. The strategy is to roll out the proven retail proposition across the North of England. In November 2011 the Company invested £0.38 million into PowerOasis Limited, a specialist provider of off grid power solutions for operators of mobile phone base stations. In December 2011 the Company invested £0.38 million into TeraView Limited, a company specialising in the provision of innovative testing processes to the electronics sector. In March 2012 the Company backed the management buy-out of payroll and HR software group Selima Limited with an investment of £0.60 million.

The Company also made four further investments into its existing unquoted and quoted portfolios. In April 2011 £0.04 million was invested into niche international recruitment consultant, Dryden Human Capital Group Limited (formerly Darwin Rhodes Group Limited), to fund a shareholder restructuring alongside investment from new institutional co-investment partner Calculus Capital. In June 2011 £0.10 million was invested into specialist healthcare communications company Fishawack Limited to fund the acquisition of a Swiss competitor. Also in June 2011 £0.12 million was invested into AiM quoted diagnostics healthcare group, EKF Diagnostics Holdings plc to help to fund the acquisition of a US based diagnostics group. In January 2012 the Company completed an overall investment of £1.30 million into Displayplan Holdings Limited, providing retailers and branded goods manufacturers with point-of-sale display fixtures, through its acquisition vehicle North Western Investments Limited, into which the Company had previously invested £1.00 million. 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.

Following the year end £2.50 million was invested into specialist engineering group Seven Technologies Limited based in Northern Ireland. £1.00 million was also invested into Fairlight Bridge Limited, backing successful interim manager Peter Bridge to look for turnaround opportunities in and around the Midlands region.

Disposals

April 2011 saw the Company's most significant disposal to date. The partial realisation of the investment in GO Outdoors Limited to 3i plc realised cash proceeds of £6.54 million and allowed the Company to return this to its Shareholders in the form of an 18.0 pence per Ordinary share special dividend. The Company has a residual 14.09% shareholding in GO Outdoors Limited. This deal was awarded VCT Deal of the Year by unquote".

In addition to the partial disposal above, the Company received proceeds of £3.9 million comprising: £3.1 million of loan repayments and preference redemptions and £0.8 million from other portfolio companies.

Over the course of the year £0.33 million has been received from the sale of shares in AiM-listed Hargreaves Services plc, recognising a profit of £0.05 million compared to previous carrying value and a profit of £0.18 million compared to original cost.

The Company's residual investment in AiM-listed Patsystems plc was disposed of in January 2012 for £0.12 million, realising a small loss. The Company also disposed of shares in Belgravium Technologies plc and Straight plc for £0.02 million and generating a small gain. The sale of shares in AiM-listed Tikit Group plc realised proceeds of £0.09 million, £0.02 million in excess of previous carrying value and at a £0.06 million premium to the original cost of the shares.

Also, in March 2012, the Company disposed of its investments in 4G Capital Limited and Adex Bridge Investments Limited. This resulted in £0.90 million and £1.58 million of loans being repaid and £0.08 million and £0.17 million of equity being returned respectively.

The £3.1 million of cash returned from loan repayments and preference redemptions also includes £0.23 million from Waterfall Services Limited in respect of the redemption of preference shares and the £0.36 million early loan repayment from RMS Group Holdings Limited. In addition Denison Mayes Group Limited made the final repayment on the small residual loan.

Overall cash proceeds received during the year amounted to £10.4 million representing a £6.60 million profit on original cost and an uplift of £2.08 million on the previous carrying value. Together with the £0.09 million gain from the sale of gilt investments, this takes the total gain on disposal of investments during the reporting period to £2.98 million.

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 Ordinary share plus cumulative dividends paid per Ordinary share has developed over the years since the Company's inception.

Summary and Outlook

The year under review has seen a continuation of the difficult market conditions of recent years. In spite of this many of the portfolio companies have been able to deliver improved results. We would hope to see this trend continue as economic conditions begin to improve.

Whilst the year ahead will be challenging we are optimistic about the Company's ability to take advantage of the upcoming opportunities. The hesitant approach from the banks and changes in EU restrictions on qualifying investments should both lead to an increase in the volume and scale of investment opportunities in the year ahead.

The Company's cash reserves have been boosted further by the recent Offer for Subscription. After taking account of the proposed final dividend of 3.0p per Ordinary share this leaves the Company with strong cash reserves to support the portfolio, take advantage of good investment opportunities and continue to pay an attractive dividend.

David Hall

YFM Private Equity Limited
13 June 2012

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 either a reduction or increase to its 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 reductions in fair value.




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

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 earnings multiple.

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. No such discount has been considered necessary as at 31 March 2012.

Directors

Name	Responsibilities
<p>Helen Sinclair Chairman</p> 	<p>Helen has an MA in Economics from Cambridge University and an MBA from INSEAD Business School. After working in investment banking Helen spent nearly eight 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, Downing Income VCT 4 plc and Octopus Eclipse VCT 3 plc.</p>
<p>Philip Simon Cammerman Non-executive director</p> 	<p>Philip has an engineering degree from Imperial College and an MBA from Stanford University. He 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 YFM Private Equity Limited and a director of YFM Group (Holdings) 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.</p>
<p>Edward Buchan Non-executive director</p> 	<p>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 West LB Panmure, specialising in the transport and logistics industry sectors. He is currently Managing Director, Corporate Finance at LCF Edmond de Rothschild Securities Limited and is a non-executive director of Wallem Group Limited and Downing Absolute Income VCT 1 plc.</p>

Secretary and Registered Office

KHM Secretarial Services Limited

Old Cathedral Vicarage
St. James Row
Sheffield
S1 1AX

Registered No: 03612770

Directors' Report

For the year ended 31 March 2012

The directors present their report and audited financial statements of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2012.

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 ("VCT") and has been approved by HM Revenue & Customs as an authorised VCT 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 twelve 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 VCT industry, did not have any employees 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. The Board manages the business affairs of the Company through regular management reports from its Fund Manager and, through this process, ensures that it has sufficient resources to carry out its functions and meet its strategic objectives.

Principal Risks, Risk Management and Regulatory Environment

The Board seeks to mitigate its internal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In mitigation and management of these risks, the Board applies rigorously the principles detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010. Details of the Company's internal controls are contained in the Corporate

Governance and Internal Control sections on page 31 and further information on exposure to risks associated with financial instruments is given in note 19a of the financial statements.

The Board believes that the principal risks faced by the Company are as shown in the table:

Economic

Risk

Events such as recession and interest rate fluctuations could affect smaller companies' performance and valuations. As well as the response to 'Investment and Strategic' risk below the Company has a clear investment policy (page 35) and a diversified portfolio operating in a range of sectors.

Mitigation

The Fund Manager actively monitors investee performance which provides quality information for their monthly review of the portfolio.

Investment and Strategic

Risk

Inappropriate strategy, poor asset allocation or consistently weak stock allocation may lead to under performance and poor returns to Shareholders. The quality of enquiries, investments, investee company management teams and monitoring, and the risk of not identifying investee under performance might also lead to under performance and poor returns to Shareholders.

Mitigation

The Board reviews strategy annually. At each of the (at least) quarterly Board meetings the directors review the appropriateness of the Company's objectives and stated strategy in response to changes in the operating environment, peer group activity and performance against the Company's stated benchmark indicator. The Fund Manager carries out due diligence on potential investee companies and their management teams and utilises external reports where appropriate to assess the viability of investee businesses before investing. Wherever possible a non-executive director will be appointed to the board of the investee.

Loss of Approval as a VCT

Risk

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, 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.

Mitigation

One of the Key Performance Indicators monitored by the Company is its compliance with legislative tests. Details of how the Company manages these requirements can be found under the heading 'Compliance with VCT Legislative Tests' on page 28.

Regulatory

Risk

The Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority and International Financial Reporting Standards as adopted by the European Union ('IFRSs'). Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Mitigation

The Fund Manager has procedures in place to ensure recurring Listing Rules requirements are met and actively consults with brokers, solicitors and external compliance advisors as appropriate. The key controls around the Companies Act 2006 and IFRS are explained on page 34.

Reputational

Risk

Inadequate or failed controls might result in breaches of regulations or loss of Shareholder trust.

Mitigation

The Board is comprised of directors with suitable experience and qualifications who report annually to the Shareholders on their independence. The Fund Manager is well-respected with a proven track record and has a formal recruitment process to employ experienced investment staff. Allocation Rules have been agreed between the Fund Manager and the Company, and no personal co-investments are permitted. Advice is sought from external advisors where required. Both the Company and the Fund Manager maintain appropriate insurances.

Operational

Risk

Failure of the Fund Manager's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Mitigation

The Fund Manager has a documented disaster recovery plan.

Financial

Risk

Inadequate controls might lead to misappropriation of assets. Inappropriate accounting policies might lead to misreporting or breaches of regulations.

Mitigation

The key controls around financial reporting and controls are described on page 34.

Market/Liquidity

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. 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. 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.

Mitigation

Overall liquidity risks are monitored on an ongoing basis by the Fund Manager and on a quarterly basis by the Board. Sufficient investments in cash and fixed income securities are maintained to pay expenses as they fall due.

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 VCT industry is that of Total Return (expressed in pence per share) calculated by adding the total cumulative dividends (inclusive of any recoverable tax credits) paid to Shareholders from the date the Company is launched to the current reporting date to the Net Asset Value at that date.

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

The evaluation of comparative success of the Company's Total Return is by reference to the net cost of investment for the founder eligible Shareholders which was 80 pence per Ordinary share (100p 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 following the initial three year provisional period:

Income Test

The Company's income in the period must be derived wholly or mainly (70%+) from shares or securities. The Company complied with this test in the period, with 89.1% (2011: 98.8%) 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% (2011: 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 investee companies. The Company complied with this test with 74.6% (2011: 73.0%) 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 57.1% (2011: 50.6%) of value being in holdings of non-preferential Ordinary shares.

Maximum Single Investment Test

The value of any one investment has, at any time in the period, not 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 5.3% (2011: 5.1%).

The Board receives regular reports on compliance with the VCT legislative tests from its Fund Manager. 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 Ordinary share (increased in line with RPI) once cumulative dividends of 10.0 pence per Ordinary 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 41. The profit after taxation for the year amounted to £1,064,000 (2011: £10,373,000). The revenue profit for the year amounted to £675,000 (2011: £616,000). The capital profit for the year amounted to £389,000 (2011: £9,757,000).

The directors recommend the payment of a final dividend of 3.0 pence per Ordinary share (2011: 3.0 pence) which will be paid on 17 August 2012 to Shareholders on the register on 13 July 2012. A resolution to this effect will be proposed at the Annual General Meeting to be held on 20 July 2012.

The Net Asset Value per Ordinary share at 31 March 2012 was 99.6 pence (2011: 120.0 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 43.

Share Capital

As shown in note 11 of the Financial Statements, the Company has only one class of shares, being Ordinary shares of 10 pence each.

Buy-Back and Issue of Ordinary 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 £181,694. These Ordinary shares are held in treasury.

Date	Number of Ordinary shares of 10p bought-back	% of issued share capital at that date	Consideration paid per Ordinary share
20 September 2011	46,020	0.12%	92.75p
19 December 2011	153,180	0.41%	90.75p

Under the existing authority, which expires on 20 July 2012, the Company has the power to purchase Ordinary shares up to 14.99% of the Company's issued Ordinary share capital as at 13 June 2011. This authority is recommended for renewal at this year's Annual General Meeting.

The directors have unconditional authority to allot, grant rights to subscribe for or to convert security into Ordinary shares in the Company up to an aggregate nominal amount of £378,831 (being 10% of the Company's issued Ordinary share capital as at 13 June 2011) until 20 July 2012.

In addition, the directors have a separate unconditional authority to allot Ordinary 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 Ordinary shares in the Company (other than pursuant to its Dividend Reinvestment Scheme) until the Annual General Meeting in 2013, it is recommended that the authority to allot Ordinary shares for cash is renewed at the Annual General Meeting for up to an aggregate nominal amount of £395,655 representing approximately 10% of the issued Ordinary share capital of the Company (as at the date of the Notice of 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 1,421,329 new Ordinary shares in respect of the linked offer with British Smaller Companies VCT2 plc, and 1,080,772 new Ordinary shares pursuant to the Offer for Subscription for the tax year 2011/2012 ("the Offer"). A further 1,430,339 new Ordinary shares were allotted in respect of its Dividend Reinvestment Scheme. On 5 April 2012 the Company allotted 1,531,778 new Ordinary shares at a price of 99.75 pence per Ordinary share in respect of valid subscriptions received and accepted by the Company on or after 21 March 2012 and by 11:00am on Thursday 5 April 2012 pursuant to the Offer launched on 6 March 2012. The total of new Ordinary shares issued under the Offer was 2,612,550, raising net funds of £2.5 million.

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 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 Ordinary shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- 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
- with the exception of the Fund Manager's Incentive Agreement, more details of which can be found in note 3 of the Financial Statements, 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 21 (2011: 20).

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. No charitable or political donations have been made in either year.

Directors and their Interests

The directors of the Company at 31 March 2012, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 38 to 39.

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.

Independent Auditor

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

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 63 of these Financial Statements.

The business of the meeting includes a resolution (Resolution 6) to be proposed to authorise the directors to issue and allot new Ordinary shares up to an aggregate nominal amount of £395,655 representing approximately 10% of the Ordinary 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 Ordinary shares and if so authorised the directors will be able to respond positively to such applications.

Also included is a special resolution (Resolution 7) proposed to empower the directors to allot Ordinary shares up to an aggregate nominal amount of 10% of the issued Ordinary share capital of the Company as at the date of the Notice of Annual General Meeting, without regard to any rights of 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 20 July 2012 (Ordinary shares purchased under this authority may be placed in treasury) and the authority for this is contained in Resolution 8.

VCT Status Monitoring

The Company has retained PricewaterhouseCoopers LLP to advise it on compliance with the legislative requirements for VCTs. 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

On 3 April 2012 the Company completed an investment of £2.5 million into Seven Technologies Limited, a Northern Irish engineering business that specialises in developing and manufacturing bespoke electronics and communications applications for operation in inhospitable environments for a wide range of international clients.

Also, on 3 April 2012 the Company completed an investment of £1.0 million into Fairlight Bridge Limited to back a highly experienced manager to invest in underperforming and turnaround situations particularly in the Midlands area.

On 5 April 2012 the Company allotted Ordinary shares under the Offer, as detailed under "Buy-Back and Issue of Ordinary Shares" on page 29.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report, the Directors' Remuneration 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 are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report 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.yfmep.com, which is a website maintained by the Company's Fund Manager. The work carried out by the auditor does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The directors confirm that so far as each director is aware, there is no relevant audit information of which the Company's auditor is 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 auditor is 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 management report 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 UK Corporate Governance Code, June 2010 (a copy of which can be found on the website of the Financial Reporting Council at www.frc.org.uk).

The Board has complied throughout the year, and up to the date of this report, with The UK Corporate Governance Code, except for those provisions relating to the appointment of a chief executive and a recognised senior independent non-executive director and the presumption concerning the Chairman's independence (see 'Board Composition' opposite). The Company has also not complied with the recommendation to give 20 business days' notice of the Annual General Meeting.

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 the directors to discharge their responsibilities.

The significant directorships and time commitments (as disclosed on page 25) of all directors including the Chairman are assessed by the Board both on appointment and as changes arise. The Chairman was appointed as a non-executive director for Octopus Eclipse VCT 3 plc in October 2011 at which time the Board determined that the appointment would have no impact on the fulfilment of her commitments to the Company.

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 including the Chairman, all of whom are regarded by the Board as independent and also as independent of the Company's Fund Manager. Mr P S Cammerman is a related party to three of the Company's quoted portfolio companies as set out in note 17 and has been on the Board for more than nine years. The Board considers that Mr P S Cammerman remains a committed and independent non-executive director given, but not limited to, the following; the companies' listed status, their incidental contribution to the Company's overall portfolio, the fact that Mr PS Cammerman has no voting rights in these companies and the minimal level of his shareholding. The independence of the Chairman was assessed upon her appointment. Although The UK Corporate Governance 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 experience relevant 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 as its executive functions (detailed on page 34) are delegated to the Fund Manager in line with standard industry practice. 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.

The Chairman is responsible for leadership of the Board. In particular, she ensures the effective operation of the Board and its committees, in conformity with the highest standards of corporate governance, and sets the agenda, style and tone of Board discussions to promote constructive debate and effective decision-making. She also ensures effective communication with Shareholders, and with the other directors, is responsible for developing the Company's strategy and evaluating the performance of the Company's Fund Manager on an annual basis.

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 UK Corporate Governance Code, including the need to refresh the Board and its Committees. Any director who has served for a period of more than nine years will stand for annual re-election thereafter.

The 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.

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. There are no set minimum notice periods for Ms H Sinclair or Mr P S Cammerman, though Mr C W E R Buchan's appointment is terminable by him or the Company on three months' notice.

The directors recommend the re-election of Mr P S Cammerman who retires by virtue of service for more than nine years, because of his commitment, experience and contribution to the Company.

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 and function of the meetings attended by each director. There were no Nominations Committee meetings held during the year.

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

Meetings attended	Ms H Sinclair	Mr P S Cammerman	Mr C W E R Buchan
Board meetings	4	4	4
Audit Committee meetings	2	2	2
Allotment Committee meetings	3	1	1
Investment Committee meetings	10	11	11
Remuneration Committee meetings	1	1	1
General meetings	1	1	1
Telephone conferences	7	5	7
Total	28	25	27

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 VCTs.

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 UK Corporate Governance Code and included attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of their contribution. Particular attention is paid to those directors who are due for re-election. 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 director being proposed for re-election continues to be effective and that he continues 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 a commitment to the role.

Remuneration Committee

The Remuneration 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 Directors' Remuneration Report which may be found on pages 38 and 39.

The Remuneration 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 and on the Fund Manager's website at www.yfmep.com.

Audit Committee

The Audit Committee consists of Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan and meets at least twice a year. The directors consider that it is appropriate that the Chairman of the Committee should be Mr C W E R Buchan. 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 UK Corporate Governance 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 auditor.

Representatives of the Company's auditor 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 on pages 34 and 35.

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

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 and on the website of the Fund Manager at www.yfmep.com.

Investment Committee

The Investment 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 new investment, further investment, variation and realisation decisions) on behalf of the Board. Where an urgent decision is required in respect of a potential new AiM investment, the Fund Manager in conjunction with the Chairman of the Committee is permitted to make a decision up to an investment level of £250,000, provided that papers have first been circulated to at least the Chairman of the Committee. With regard to the realisation of AiM holdings, the Fund Manager is authorised to implement the Company's existing strategy for the holding in question within parameters previously agreed by the directors.

The Investment 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 and on the Fund Manager's website at yfmep.com.

Nominations Committee

The Company has a Nominations Committee which consists of Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan all of whom are considered by the Board to be independent of the Fund Manager. The Chairman of the Board acts as Chairman of the Committee, save when the Committee meets to consider a successor to the Chairmanship.

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

The Nominations 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 and on the Fund Manager's website at www.yfmep.com.

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 one director, unless otherwise determined by the Board.

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. There are no written terms of reference.

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. Following a limited survey of Shareholders in early 2012 the Company will be distributing further information in order to keep Shareholders up to date on its performance on a more regular basis. This information will consist of an annual newsletter and, in addition, a factsheet for the two quarters of the year (30 June and 31 December) where an Annual or Interim Report is not issued.

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 periodically hold Shareholder workshops which review the Company's performance and industry developments, and which give Shareholders a further opportunity to meet members of the Board and Chief Executives of some of the investee companies. 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.

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 and Risk Management

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 VCT 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 detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 in terms of maintaining sound risk management and internal control systems were in place throughout the year ended 31 March 2012 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 Turnbull Guidance (being the Internal Control Guidance for Directors).

In particular the Board, together with the Audit Committee, is responsible for overseeing and reviewing internal controls concerning financial reporting. In addition to those controls sub-contracted as listed above the following controls have been in place throughout the year:

- a robust system of internal control is maintained by the Fund Manager over the preparation and reconciliation of investment portfolio valuations;
- monthly reconciliation of assets held as fixed income securities and cash;
- independent review of the valuations of portfolio investments by the Board (quarterly) and the external auditor (annually);
- the Audit Committee review of financial reporting and compliance (as set out on page 33); and
- the Board reviews financial information including the Annual Report, Interim Report and interim management statements prior to its external communication.

The Board has 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 Board is of the opinion that the Company's systems of internal financial and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company.

Corporate Governance and Voting Policy in relation to Investee Companies

The Company delegates responsibility for monitoring its investments to its Fund Manager 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 capabilities with £1.5 million funds being raised via the Offer which closed on 5 April 2012 (taking the total net funds raised during the Offer to £2.5 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 a period of at least 12 months from the date of signing these financial statements. The directors therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing the financial statements.

Investment Policy

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

During the coming year 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 securities and AiM and PLUS traded securities which, under the current 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.

Following the issue of the Draft Finance Bill 2012 on 29 March 2012 investments undertaken by the Company will be subject to new legislation.

In addition to the above investment criteria following EU approval (subject to the granting of Royal Assent), changes have been made to the "qualifying company" limits effective from 6 April 2012. These are summarised as follows:

- the employee limit will increase from 50 to 250 for investee companies;
- an increase in the size threshold of gross assets to £15 million before investment from £7 million; and
- that the maximum amount that an investee company can receive from VCTs and other State Aid sources will now be £5 million.

Funds raised by VCTs after 5 April 2012 may not be used to finance buy-outs or otherwise to acquire existing shares. The Company does not have any funds to which the buy-outs rule applies.

Such changes to the current legislation should increase the number of potential new investments available to the Company and help further diversify its portfolio.

Typically the Company invests alongside other venture capital funds, such syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this Annual Report.

The Fund Manager 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 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.

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, provided that papers have first been circulated to at least the Chairman of the Company's Investment Committee. The Board also reserves to itself the taking of all divestment decisions save as regards the disposal 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 disposals 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 the Fund Manager 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 VCTs 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 the Fund Manager, 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. 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, £6,370,845 was deposited in an interest bearing account with Royal Bank of Scotland Plc and a further £5,000,000 was held in a fixed term account with Lloyds TSB, maturing in August 2012.

Financial Instruments

Further information on financial instruments is provided in Note 19 to the Financial Statements, including disclosure of the financial risk management objectives and policies.

Financial Assets

Investments made in suitable qualifying holdings will 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 Annual 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.

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 disposal 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 venture capital funds.

Details of financial assets held at 31 March 2012 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 pence per Ordinary share (increasing in line with RPI) once cumulative dividends of 10 pence per Ordinary share from 1 April 2009 have been paid. These incentive payments are subject to cumulative shortfalls in any prior accounting periods being made up and the average Net Asset Value per Ordinary share in the relevant accounting period being not less than 94 pence per Ordinary share as adjusted for the impact of share issues and buy-backs.

No payment can be made under the Incentive Agreement until the adjusted Net Asset Value of the Company has increased to 93.5 pence per Ordinary share and in addition at least 10 pence per Ordinary share in dividends has been paid to Shareholders. If any incentive payment is due it is paid five 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 2012 £1,415,058 has accrued to the Fund Manager under the Incentive Agreement (31 March 2011: £142,278).

This report was approved by the Board on 13 June 2012 and signed on its behalf by:



Helen Sinclair
Chairman

Directors' Remuneration Report

Directors and their Interests

The directors of the Company at 31 March 2012 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 2012	31 March 2011
Ms H Sinclair	13,407	13,407
Mr P S Cammerman	41,017	35,880
Mr C W E R Buchan	1,972	1,972

None of the directors has subscribed for further shares since the year end. None of the directors held any options to acquire additional shares at 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 office. Further information on the contracts of service are given on page 32.

The Company had no employees in either year.

Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £75,000 (2011: £85,538) all of which was paid to three (2011: five) 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:

	2012 £	2011 £
Ms H Sinclair	35,000	35,000
Mr P S Cammerman	20,000	20,000
Mr C W E R Buchan	20,000	10,538
Mr R Last	-	10,000
Mr R M Pettigrew	-	10,000
	75,000	85,538

There are no executive directors (2011: 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 'Basic Remuneration' section is the only part of the Directors' Remuneration Report subject to audit. All other sections are not subject to audit.

Remuneration Policy

The Board's policy is that the remuneration of non-executive directors should reflect time spent and the responsibility borne by the directors on the Company's affairs and should be sufficient to enable candidates of a high calibre to be recruited. The levels of directors' fees paid by the Company for the year ended 31 March 2012 were agreed during the year.

The Company's policy is to pay directors monthly, to them personally or to a third party as requested by the director.

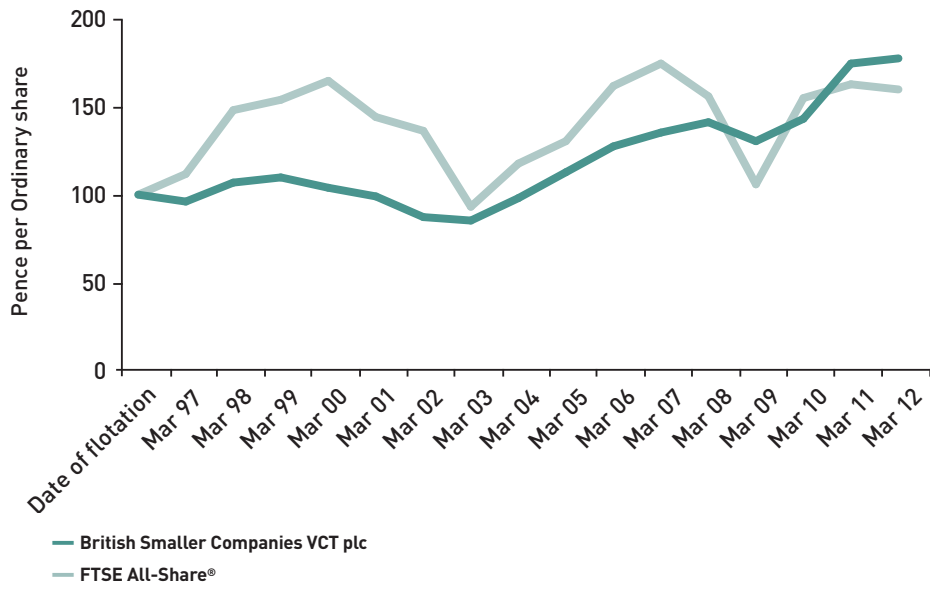
Performance Graphs

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 2012. The directors consider this to be the most appropriate published index on which to report on comparative performance.

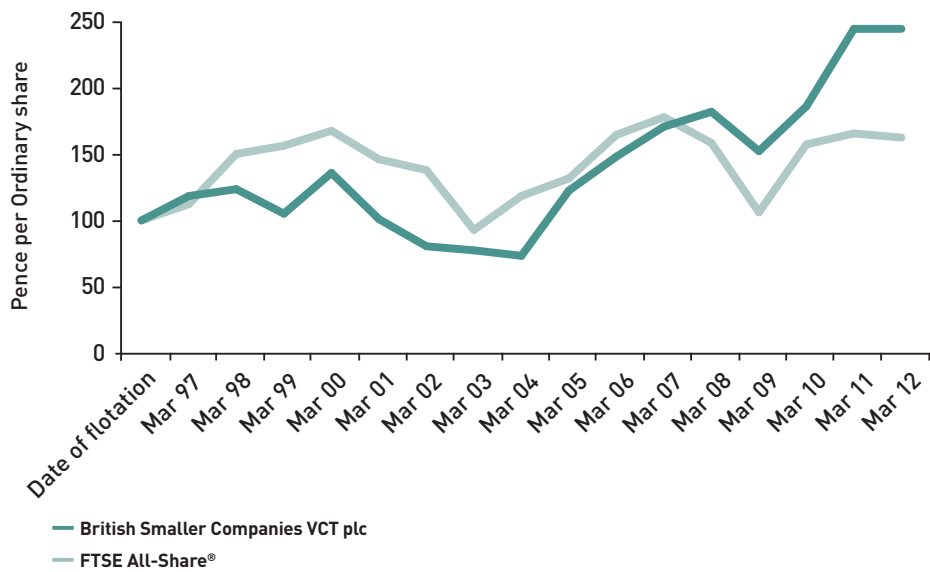
The first graph looks at the value, calculated by reference to the Net Asset Value and cumulative dividends paid (see note 13) of £100 invested in the Company's shares, excluding tax relief received on this investment, with the value of £100 invested in the FTSE All-Share® Index over the same period. 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 2012 compared to the FTSE All-Share® Index. It shows that at 31 March 2012 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 £241 compared with £161 if invested in the FTSE All-Share® Index. This assumes that at the time of flotation the tax relief given on that £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.

Net Asset Value Return



Share Price Return



This report was approved by the Board on 13 June 2012 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 2012, 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 30, 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.

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 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs 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 35, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on directors' remuneration.

Paul Houghton

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
13 June 2012

Statement of Comprehensive Income

For the year ended 31 March 2012

	Notes	2012			2011		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	7	-	2,178	2,178	-	19	19
Gains on investments held at fair value	7	-	166	166	-	10,254	10,254
Income	2	1,236	-	1,236	1,174	-	1,174
Administrative expenses:	3						
Fund management fee		(201)	(604)	(805)	(153)	(460)	(613)
Incentive fee		-	(1,415)	(1,415)	-	(142)	(142)
Other expenses		(296)	-	(296)	(319)	-	(319)
		(497)	(2,019)	(2,516)	(472)	(602)	(1,074)
Profit before taxation		739	325	1,064	702	9,671	10,373
Taxation	4	(64)	64	-	(86)	86	-
Profit for the year		675	389	1,064	616	9,757	10,373
Total comprehensive income for the year		675	389	1,064	616	9,757	10,373
Basic and diluted earnings per Ordinary share	6	1.85p	1.07p	2.92p	1.86p	29.52p	31.38p

The accompanying notes on pages 45 to 62 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 2012

	Notes	2012 £000	2011 £000
Assets			
Non-current assets			
Investments		24,200	29,946
Fixed income government securities		2,499	8,537
Financial assets at fair value through profit or loss	7	26,699	38,483
Current assets			
Trade and other receivables	8	532	359
Cash on fixed term deposit		5,000	-
Cash and cash equivalents	9	7,372	3,114
		12,904	3,473
Liabilities			
Current liabilities			
Trade and other payables	10	(1,709)	(784)
Net current assets		11,195	2,689
Net assets		37,894	41,172
Shareholders' equity			
Share capital	11	4,039	3,646
Share premium account		23,176	19,492
Capital redemption reserve		221	221
Treasury share reserve		(2,048)	(1,866)
Capital reserve		-	(372)
Investment holding gains (losses) reserve		7,432	11,780
Special reserve		2,408	2,408
Revenue reserve		2,666	5,863
Total Shareholders' equity		37,894	41,172
Basic and diluted Net Asset Value per Ordinary share	12	99.6p	120.0p

The accompanying notes on pages 45 to 62 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 13 June 2012 and were signed on its behalf by:



Helen Sinclair
Chairman

Statement of Changes in Equity

For the year ended 31 March 2012

	Share capital	Share premium account	Capital redemption reserve	Treasury share reserve	Capital reserve	Investment holding gains (losses)	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2010	3,212	15,398	221	(1,175)	93	1,558	2,408	7,293	29,008
<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
Total comprehensive income for the year	-	-	-	-	(497)	10,254	-	616	10,373
<i>Issue of share capital</i>	407	4,030	-	-	-	-	-	-	4,437
<i>Issue costs</i>	-	(149)	-	-	-	-	-	-	(149)
<i>Issue of share capital – DRIS</i>	27	213	-	-	-	-	-	-	240
<i>Purchase of own Ordinary shares</i>	-	-	-	(691)	-	-	-	-	(691)
<i>Dividends</i>	-	-	-	-	-	-	-	(2,046)	(2,046)
Total transactions with owners	434	4,094	-	(691)	-	-	-	(2,046)	1,791
<i>Realisation of prior year investment holding gains</i>	-	-	-	-	32	(32)	-	-	-
Balance at 31 March 2011	3,646	19,492	221	(1,866)	(372)	11,780	2,408	5,863	41,172
<i>Revenue return for the year</i>	-	-	-	-	-	-	-	675	675
<i>Capital expenses</i>	-	-	-	-	(1,955)	-	-	-	(1,955)
<i>Gain on investments held at fair value</i>	-	-	-	-	-	166	-	-	166
<i>Gain on disposal of investments in the year</i>	-	-	-	-	2,178	-	-	-	2,178
Total comprehensive income for the year	-	-	-	-	223	166	-	675	1,064
<i>Issue of share capital</i>	250	2,647	-	-	-	-	-	-	2,897
<i>Issue costs</i>	-	(173)	-	-	-	-	-	-	(173)
<i>Issue of share capital – DRIS</i>	143	1,210	-	-	-	-	-	-	1,353
<i>Purchase of own Ordinary shares</i>	-	-	-	(182)	-	-	-	-	(182)
<i>Dividends</i>	-	-	-	-	(4,365)	-	-	(3,872)	(8,237)
Total transactions with owners	393	3,684	-	(182)	(4,365)	-	-	(3,872)	(4,342)
<i>Realisation of prior year investment holding gains</i>	-	-	-	-	4,514	(4,514)	-	-	-
Balance at 31 March 2012	4,039	23,176	221	(2,048)	-	7,432	2,408	2,666	37,894

The accompanying notes on pages 45 to 62 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 (losses) 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 a resolution of the Shareholders passed on 16 July 1999 to cancel the Company's share premium account.

The special reserve, capital reserve, revenue reserve and treasury reserve are all distributable reserves. These reserves total £3,026,000 (2011: £6,033,000) representing a decrease of £3,007,000 (2011: £2,586,000 decrease) during the year. This change arises from the profit in the year of £898,000 (2011: £119,000), a movement in the investment gains (losses) reserve of £4,514,000 (2011: £32,000), dividends of £8,237,000 (2011: £2,046,000) and the purchase of own Ordinary shares of £182,000 (2011: £691,000). The directors also take into account the level of the investment holding gains (losses) reserve when determining the level of dividend payments.

Statement of Cash Flows

For the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Net cash (outflow) inflow from operating activities	14	(111)	717
Cash flows from (used in) investing activities			
Cash placed on fixed term deposit		(5,000)	-
Purchase of financial assets at fair value through profit or loss	7	(3,000)	(6,802)
Proceeds from sale of financial assets at fair value through profit or loss	7	17,024	5,588
Net cash from (used in) investing activities		9,024	(1,214)
Cash flows (used in) from financing activities			
Issue of Ordinary shares		2,897	4,677
Cost of Ordinary share issue		(178)	(149)
Purchase of own Ordinary shares		(490)	(691)
Dividends paid	5	(6,884)	(2,046)
Net cash (used in) from financing activities		(4,655)	1,791
Net increase in cash and cash equivalents		4,258	1,294
Cash and cash equivalents at the beginning of the year		3,114	1,820
Cash and cash equivalents at the end of the year	9, 15	7,372	3,114

The accompanying notes on pages 45 to 62 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2012

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.

The accounts have been prepared in compliance with the recommendations 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) to the extent that they do not conflict with IFRSs as adopted by the European Union.

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 2011 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 adopted early in these financial statements. These include IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13 and IFRIC 20. A full impact assessment has not yet been completed in order to assess whether these new standards will have a material impact on the financial statements.

Financial Assets 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.

Investments in quoted Government and other fixed income securities are classified at fair value through profit or loss under the criteria given above. They are classified as Non-current assets as they do not meet the definition in IAS 7 'Statement of cash flows' of short-term highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of change in value. These are valued at market bid prices.

Transaction costs on purchases are expensed immediately through the Statement of Comprehensive Income.

All investments are measured at fair value with gains and losses arising from changes in fair value being included in the Statement of Comprehensive Income 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. 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.

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. Interest on loan stock and dividends on preference shares are accrued on a daily basis. Provision is made against this income where recovery is doubtful. Where interest or a redemption premium is payable at redemption then it is only recognised as income once receipt is reasonably certain. Until this point it is accrued daily and included within the capital valuation of the investment (and thus classified under "Gain or loss on investments held at fair value" in the Statement of Comprehensive Income).

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 and incentive fees. Of the fund management 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. The incentive fee payable to the Fund Manager (as set out in note 3) is charged wholly through the Capital column.

Cash and Cash Equivalents

Cash and cash equivalents include cash at hand and any investments held in high quality AAA rated liquidity funds. These funds are classified under cash equivalents as they meet the definition in IAS 7 'Statement of cash flows' 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.

Cash balances held in fixed term deposits are not classified as cash and cash equivalents as they do not meet the definition in IAS 7 'Statement of cash flows' of short-term highly liquid investments.

Cash flows classified as "operating activities" for the purposes of the Statement of Cash Flows are those arising from the Revenue column of the Income Statement, together with the items in the Capital column that do not fall to be easily classified under the headings for "Investing Activities" given by IAS 7 'Statement of cash flows', being management and incentive fees payable to the Fund Manager. The Capital cash flows relating to acquisition and disposal of investments are presented under "investing activities" in the Statement of Cash Flows in line with both the requirements of IAS 7 and the positioning given to these headings by general practice in the industry.

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.

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

Investment Holding Gains (Losses)

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

Special Reserve

The special reserve was created following the passing of a resolution of the Shareholders on 16 July 1999 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.

1. Principal Accounting Policies (continued)

Dividends Payable

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

Segmental Reporting

In accordance with IFRS 8 'Operating segments' and the criteria for aggregating reportable segments the directors are of the opinion that the Company has engaged in a single reportable segment of investing in UK-based equity and debt securities external to the Company. Therefore no additional segmental reporting is provided.

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. Further information on the sensitivities of these techniques is given in note 7 and note 19.

2. Income

	2012 £000	2011 £000
Income from investments:		
– Dividends from unquoted companies	353	214
– Dividends from quoted companies	69	75
	422	289
– Interest on loans to unquoted companies	506	435
– Fixed interest Government securities	155	436
Income from investments held at fair value through profit or loss	1,083	1,160
Interest on deposits	153	14
	1,236	1,174

3. Administrative Expenses

	2012 £000	2011 £000
Fund management fee	805	613
Incentive fee	1,415	142
Other expenses:		
– Administration fee	54	51
– Directors' remuneration (comprises only short-term benefits including social security contributions)	83	94
– Auditor's remuneration – audit fees (excluding irrecoverable VAT)	17	16
– General expenses	142	158
	2,516	1,074

No fees are payable to the auditor in respect of other services supplied pursuant to legislation (2011: Nil).

3. Administrative Expenses (continued)

YFM Private Equity Limited provides fund management services to the Company under a subscription rights agreement dated 28 February 1996 ("Subscription Rights Agreement"). 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.

The total remuneration payable to YFM Private Equity Limited in the year was £859,000 (2011: £664,000).

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 38 under the heading "Basic Remuneration (audited)".

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 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 pence per Ordinary share once cumulative dividends of 10 pence per Ordinary 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 Ordinary share in the relevant accounting period being not less than 94 pence per Ordinary share as adjusted for the impact of share issues and buy-backs.

No payment can be made under the Incentive Agreement until the Net Asset Value of the Company has increased to 93.5 pence per share and in addition at least 10 pence per Ordinary 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.

Both in the current and prior year, the Fund Manager had achieved its adjusted targets of 93.5 and 94.1 pence per Ordinary share respectively and £1,557,000 (of which £142,000 relates to the year ended 31 March 2011) has been provided within trade and other payables. The incentive fee is payable following the Annual General Meeting on 20 July 2012.

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.

4. Taxation

	2012			2011		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	739	325	1,064	702	9,671	10,373
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 20%	148	65	213	147	2,031	2,178
Effect of:						
UK dividends received	(84)	-	(84)	(61)	-	(61)
Non taxable profits on investments	-	(469)	(469)	-	(2,157)	(2,157)
Excess management expenses	-	340	340	-	40	40
Tax charge (credit)	64	(64)	-	86	(86)	-

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

Deferred tax assets of £635,000 (2011: £295,000) calculated at 20% in respect of unrelieved management expenses (£3.2 million as at 31 March 2012) 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.

5. Dividends

Amounts recognised as distributions to equity holders in the year:

	2012			2011		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 March 2011 of 3.0p per Ordinary share paid on 22 August 2011 (2011: 3.0p per Ordinary share)	1,072	-	1,072	983	-	983
Special dividend 18.0p per Ordinary share paid on 22 August 2011 (2011: 1.25p per Ordinary share)	2,064	4,365	6,429	410	-	410
Interim dividend 2.0p per Ordinary Share paid on 20 January 2012 (2011: 2.0p per Ordinary share)	736	-	736	653	-	653
	3,872	4,365	8,237	2,046	-	2,046
Shares issued under the DRIS			(1,353)			
Dividends paid in Statement of Cash Flows			6,884			

The interim dividend of 2.0 pence per Ordinary share was paid on 20 January 2012 to Shareholders on the register at 23 December 2011.

The special dividend of 18.0 pence per Ordinary share was paid on 22 August 2011 to Shareholders on the register at 22 July 2011.

A final dividend of 3.0 pence per Ordinary share in respect of the year to 31 March 2012, amounting to £1,187,000, has been proposed. This has not been recognised in the year ended 31 March 2012 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 £1,064,000 (2011: £10,373,000) and 36,441,889 (2011: 33,051,075) Ordinary shares, being the weighted average number of Ordinary 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 £675,000 (2011: £616,000) and 36,441,889 (2011: 33,051,075) Ordinary shares being the weighted average number of Ordinary 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 £389,000 (2011: £9,757,000) and 36,441,889 (2011: 33,051,075) Ordinary shares being the weighted average number of Ordinary shares in issue during the year.

During the year the Company issued 3,932,440 new Ordinary shares. The Company also repurchased 199,200 of its own Ordinary shares, which are held in treasury.

Treasury shares have been excluded in calculating the weighted average number of Ordinary shares during the year. The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted earnings per Ordinary share are the same.

After the year end the Company issued 1,531,778 new Ordinary shares (note 18). If these Ordinary shares had been issued on 31 March 2012 the weighted average number of Ordinary shares in issue during the year would have been 36,446,034 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

IFRS 7, in respect of financial instruments that are measured in the balance sheet at fair value, requires disclosure of fair value measurements by level within 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.
- **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 (2011: 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.

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

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 2012 are summarised as follows:

IFRS 7 measurement classification	Level 3	Level 1		Level 1	
	Unquoted Investments	Quoted Equity Investments	Total Quoted and Unquoted	Fixed Income Securities	Total Investments
	£000	£000	£000	£000	£000
Opening cost	12,762	3,855	16,617	8,511	25,128
Opening valuation gain (loss)	12,984	345	13,329	26	13,355
Opening fair value at 1 April 2011	25,746	4,200	29,946	8,537	38,483
Additions at cost	2,398	116	2,514	486	3,000
Capitalised interest	11	-	11	-	11
Disposal proceeds	(9,871)	(559)	(10,430)	(6,709)	(17,139)
Net profit on disposal	2,061	24	2,085	93	2,178
Change in fair value on assets held at 31 March 2012	134	(60)	74	92	166
Closing fair value at 31 March 2012	20,479	3,721	24,200	2,499	26,699
Closing cost	11,781	3,529	15,310	2,383	17,693
Closing valuation gain	8,698	192	8,890	116	9,006
Closing fair value at 31 March 2012	20,479	3,721	24,200	2,499	26,699

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

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 1		Level 1	
	Unquoted Investments	Quoted Equity Investments	Total Quoted and Unquoted	Fixed Income Securities	Total Investments
	£000	£000	£000	£000	£000
Opening cost	12,705	3,427	16,132	9,548	25,680
Opening valuation gain (loss)	672	452	1,124	192	1,316
Opening fair value at 1 April 2010	13,377	3,879	17,256	9,740	26,996
Additions at cost	2,462	499	2,961	3,841	6,802
Disposal proceeds	(557)	(274)	(831)	(4,757)	(5,588)
Net profit (loss) on disposal	93	93	186	(167)	19
Change in fair value on assets held at 31 March 2011	10,371	3	10,374	(120)	10,254
Closing fair value at 31 March 2011	25,746	4,200	29,946	8,537	38,483
Closing cost	12,762	3,855	16,617	8,511	25,128
Closing valuation gain	12,984	345	13,329	26	13,355
Closing fair value at 31 March 2011	25,746	4,200	29,946	8,537	38,483

All of the changes in fair value during the year related to assets held at 31 March 2011.

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
Opening fair value at 1 April 2011	12,737	25,746	38,483
Additions at cost	602	2,398	3,000
Capitalised interest	–	11	11
Disposal proceeds	(7,268)	(9,871)	(17,139)
Net profit on disposal	117	2,061	2,178
Change in fair value in the year on assets held at 31 March 2012	32	134	166
Closing fair value at 31 March 2012	6,220	20,479	26,699

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 standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The unquoted portfolio (Level 3 under the hierarchy above) contains investments where the circumstance and position of the investee company have to be considered in selecting from a range of values for inputs such as earnings multiple, marketability discounts etc. Both downside and upside possible alternatives to these inputs have been identified from these ranges and applied to the valuation of each of the unquoted investments. Applying the downside alternatives the value of the unquoted investments would be £3,488,000 (16.0%) lower. Using the upside alternative the value would be increased by £3,737,000 (18.0%).

The total of fair value adjustments below cost made against unquoted investments at 31 March 2012 amounted to £248,000 (2011: £231,000).

The downwards revaluation of the investment in GO Outdoors Limited totalling £3.56 million represented 9.0% of total assets of the Company at 31 March 2012. There have been no other individual fair value adjustments downwards during the year which exceeded 5% of the total assets of the Company (2011: none).

Fixed income securities are primarily 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 2011 £000	Profit (loss) on disposal £000
GO Outdoors Limited	6,536	42	4,461	2,075
Adex Bridge Limited	1,753	1,750	1,750	3
4G Capital Limited	984	1,000	1,000	(16)
RMS Group Holdings Limited	360	360	360	–
Hargreaves Services plc*	329	152	283	46
Waterfall Services Limited	233	233	233	–
Patsystems plc*	115	222	172	(57)
Tikit Group plc*	92	31	69	23
Belgravium Technologies plc*	22	35	11	11
Straight plc*	1	1	1	–
Denison Mayes Group Limited	5	5	5	–
Total proceeds from quoted and unquoted investments	10,430	3,831	8,345	2,085
Fixed income securities	6,709	6,614	6,616	93
Total	17,139	10,445	14,961	2,178

*Designates AiM quoted company.

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

The following disposals took place in 2011 (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale	Cost	Opening carrying value as at 1 April 2010	Profit (loss) on disposal
	£000	£000	£000	£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 Group Limited	20	20	20	-
Total	831	659	645	186

*Designates AiM quoted company.

Significant Interests

At 31 March 2012 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	Percentage of class held by the Company	Percentage of class held by commonly managed funds
4G Capital Limited	Software	2	50.00%	-
Bagel Nash Group Limited	Food retail	39,428	6.80%	33.20%
Dryden Human Capital Group Limited (formerly Darwin Rhodes Group Limited)	Recruitment	68,918	7.90%	32.50%
Deep-Secure Ltd	Software	100,000	12.86%	32.14%
Ellfin Home Care Limited	Healthcare	71,089	16.02%	57.96%
Fishawack Limited	Communications	67,626	8.39%	34.36%
Harris Hill Holdings Limited	Recruitment	65,714	10.70%	26.80%
Harvey Jones Holdings Limited	Manufacturing	77,715	6.88%	23.24%
Lightmain Company Limited	Manufacturing	642,860	30.00%	-
Displayplan Holdings Limited (formerly North Western Investments Limited)	Retail	2,340	22.75%	12.25%
President Engineering Group Ltd	Manufacturing	200	20.00%	-
Primal Pictures Limited	Healthcare	79,680	3.90%	17.18%
RMS Group Holdings Limited	Industrial	153,293	8.10%	14.40%
Waterfall Services Limited	Support Services	100,010	19.53%	4.88%

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.

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 2012 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT2 plc	North West Business Investment Scheme	The Chandos Fund	Total	Total for this Company
	£000	£000	£000	£000	£000
Bagel Nash Group Limited	408	–	2,548	2,956	611
Bluebell Telecom Group Limited	500	–	–	500	500
Vianet Group plc (formerly Brulines Group plc)	81	–	–	81	163
Cambridge Cognition Limited	240	–	–	240	325
Dryden Human Capital Group Limited (formerly Darwin Rhodes Group Limited)	–	–	1,045	1,045	488
Deep-Secure Ltd	500	–	2,000	2,500	1,000
Displayplan Holdings Ltd (formerly North Western Investments Limited)	700	–	–	700	1,300
Ellfin Home Care Limited	317	1,098	1,774	3,189	823
Fishawack Limited	–	–	3,597	3,597	878
Harris Hill Holdings Limited	–	–	2,349	2,349	600
Harvey Jones Holdings Limited	389	–	2,234	2,623	777
K3 Business Technology Group plc	–	316	–	316	402
PowerOasis Limited	500	–	1,000	1,500	375
Pressure Technologies plc	300	–	–	300	425
Primal Pictures Limited	961	–	–	961	468
RMS Group Holdings Limited	408	–	250	658	180
Selima Limited	300	–	–	300	600
TeraView Limited	375	–	–	375	375
Waterfall Services Limited	483	–	–	483	767

8. Trade and Other Receivables

	2012 £000	2011 £000
Amounts receivable within one year:		
Trade receivables	72	149
Less: Allowances for credit losses on trade receivables	–	(82)
Prepayments and accrued income	460	292
	532	359
Allowance for credit losses on trade receivables:		
Allowances as at 1 April	82	80
Release – credited to Statement of Comprehensive Income	(82)	–
Additions – charged to Statement of Comprehensive Income	–	2
Allowances as at 31 March	–	82

8. Trade and Other Receivables (continued)

Trade receivables are assessed for reduction in fair value when older than 90 days or when there is reasonable doubt that payment will be received in due course. As of 31 March 2012 no trade receivables were past due but not impaired (2011: £67,000). The ageing analysis of these trade receivables is as follows:

	2012 £000	2011 £000
1 – 3 months	-	67
3 – 6 months	-	-
More than 6 months	-	-

As of 31 March 2012, trade receivables of £nil (2011: £82,000) were impaired and provided for. The ageing of these receivables is as follows:

	2012 £000	2011 £000
1 – 3 months	-	-
3 – 6 months	-	18
6 – 12 months	-	64
More than 12 months	-	-

The carrying amounts of the Company's trade and other receivables are denominated in sterling.

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £194,000 (2011: £175,000). 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

	2012 £000	2011 £000
Cash in escrow	1,000	-
Cash at bank	6,372	3,114
	7,372	3,114

A further £5,000,000 is held in a fixed term account maturing in August 2012. As this asset matures in greater than three months from the balance sheet date it does not meet the definition of cash and cash equivalents and has been shown as a current asset on the face of the balance sheet.

10. Trade and Other Payables

	2012 £000	2011 £000
Amounts payable within one year:		
Accrued expenses	152	332
Incentive fee	1,557	142
Other creditors	-	310
	1,709	784

11. Called-up Share Capital

	2012		2011	
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10 pence each				
Authorised: 165,000,000 (2011: 165,000,000)	16,500		16,500	
Issued: 40,394,205 (2011: 36,461,765)		4,039		3,646

The movements in the year were as follows:

	Date	Number	Share Capital £000
Total as at 1 April 2011		36,461,765	3,646
Issue of Ordinary shares	5 April 2011	1,038,195	104
Issue of Ordinary shares	4 May 2011	383,134	38
Issue of Ordinary shares	22 August 2011	1,277,941	128
Issue of Ordinary shares	20 January 2012	152,398	15
Issue of Ordinary shares	20 March 2012	1,080,772	108
As at 31 March 2012 (including treasury shares)		40,394,205	4,039

During the year the Company purchased 199,200 (2011: 778,448) of its own Ordinary shares and these 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 'Buy-Back and Issue of Ordinary Shares'. The treasury shares have been included in calculating the number of Ordinary shares in issue at 31 March 2012.

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 Shareholders pro rata according to the nominal capital paid up on their holdings of 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 £37,894,000 (2011: £41,172,000) and 38,033,720 (2011: 34,300,480) Ordinary shares in issue at the year end, excluding treasury shares.

The 2,360,485 (2011: 2,161,285) treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 March 2012. 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 79.2 pence per Ordinary share (2011: 56.2 pence per Ordinary share) plus the Net Asset Value as calculated per note 12.

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

	2012 £000	2011 £000
Profit before taxation	1,064	10,373
(Increase) decrease in trade and other receivables	(59)	1,696
Increase (decrease) in trade and other payables	1,239	(1,079)
Profit on disposal of investments in the year	(2,178)	(19)
Profit on investments held at fair value	(166)	(10,254)
Capitalised interest	(11)	-
Net cash (outflow) inflow from operating activities	(111)	717

Profit before taxation above includes the following cash movements:

	2012 £000	2011 £000
Dividends received	422	289
Interest received		
– interest from fixed income securities	198	476
– deposit interest	73	13
Total interest	271	489

The principal non-cash transaction is the issue of shares under the Company's dividend reinvestment scheme. The Statement of Cash Flows shows dividends paid of £6,884,000 which differs from the total in note 4 by £1,353,000, which is the dividend satisfied through the issue of new Ordinary shares under this scheme.

15. Analysis of Changes in Cash and Cash Equivalents

	31 March 2011 £000	Cash flow £000	Other non cash changes £000	31 March 2012 £000
Cash and cash equivalents	3,114	4,258	-	7,372

16. Financial Commitments

At 31 March 2012 there was one investment of £900,000 that had been approved which has not been reflected in these accounts (2011: none), and has not completed since the year end. In addition to the two investments in note 18, since the year end one further investment of £600,000 has been approved by the Board (2011: £280,000).

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 2012, YFM Equity Partners' investment in Primal Pictures Limited was valued at £36,879 (2011: £29,161).

Mr Cammerman is a non-executive director of Pressure Technologies plc. During the year Mr Cammerman received £18,000 (2011: £15,925) from Pressure Technologies plc in respect of his services. Mr Cammerman holds a 0.25% equity stake in Pressure Technologies 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.

Information on any transactions between the Company and the directors during the year can be found in the Directors' Remuneration Report on page 38. Information on transactions between the Company and the Fund Manager can be found in note 3.

18. Events after the Balance Sheet Date

On 3 April 2012 the Company completed an investment of £2.5 million into Seven Technologies Limited, a Northern Irish engineering business that specialises in developing and manufacturing bespoke electronics and communications applications for operation in inhospitable environments for a wide range of international clients.

Also, on 3 April 2012 the Company completed an investment of £1.0 million into Fairlight Bridge Limited to back a highly experienced manager to invest in underperforming and turnaround situations particularly in the Midlands area.

On 5 April 2012 the Company allotted 1,531,778 new Ordinary shares of 10 pence each at a price of 99.75 pence per Ordinary share in respect of valid subscriptions received and accepted by the Company on or after 21 March 2012 and by 11:00am on Thursday 5 April 2012 pursuant to the Offer for Subscription launched on 6 March 2012.

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. 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 VCT legislation and provide potential future capital growth. Surplus funds are held in bank deposits, fixed rate Government Securities, fixed term bonds 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:

	2012		2011	
	Loans and receivables £000	Assets at fair value through profit or loss £000	Loans and receivables £000	Assets at fair value through profit or loss £000
Assets				
Cash and cash equivalents	7,372	-	3,114	-
Fixed term bond	5,000	-	-	-
Trade and other receivables	194	-	175	-
Financial assets at fair value through profit or loss	-	26,699	-	38,483
Total financial instruments	12,566	26,699	3,289	38,483

	2012 Other financial liabilities £000	2011 Other financial liabilities £000
Liabilities		
Trade and other payables	1,709	784

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.

19. Financial Instruments (continued)

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

Market Price Risk

The Company invests in new 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 sold. Returns are therefore maximised when investments are bought or sold at appropriate times in the economic cycle.

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 VCTs.

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. Exposure to any one stock is limited to 20% of the total cost of investments and 25% of total Net Asset Value. The Board seeks to invest in counter-cyclical stocks where these are identified.

Of the Company's equity investments, 15% are quoted on AiM (2011: 20%). A 5% increase in stock prices as at 31 March 2012 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £186,000 (2011: £630,000). 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.

76.6% of the Company's equity investments are in unquoted companies held at fair value (2011: 80%). 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 £1,586,000 (4.2% 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 £1,624,000 (4.3% of net assets).

Other valuations are valued at the price of recent investment, reviewed and discounted where the fair value of the investment no longer equates to the cost of the recent investment. As at 31 March 2012 no discounts have been applied and hence no separate sensitivity analysis showing the impact of any change to the discount is presented.

The largest single concentration of risk relates to the Company's investment in GO Outdoors Limited which constitutes 14.5% (2011: 32.8%) of the net assets attributable to the Company's Shareholders. 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 that have had their fair value reduced to nil, is 2.2% (2011: 2.5%) of the value of net assets.

19. Financial Instruments (continued)

Interest Rate Risk

The Company's venture capital investments include £8,240,000 (2011: £8,892,000) of loan stock in unquoted companies. All of this loan stock at 31 March 2012 is at fixed rates to guard against fluctuations in interest rates. As a result the Company is exposed to cash flow interest rate risk on none (2011: 10.1%) of its loan stock portfolio.

The Company holds a number of fixed income (including Government) securities. The value of such holdings is inversely linked to movements in market interest rates and as such this portfolio is subject to fair value interest rate risk. The Board believes this risk to be satisfactorily mitigated through the portfolio's active management on which it receives regular reports, together with the make-up and market valuation of this portfolio.

The Company has some exposure to interest rates as a result of interest earned on bank deposits.

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.

	2012			2011		
	£000	Weighted average interest rate	Weighted average time for which rate is fixed Months	£000	Weighted average interest rate	Weighted average time for which rate is fixed Months
		%			%	
Fixed rate loan stock	8,240	11.02%	39	6,629	14.56%	24
Fixed Income Securities	2,499	2.40%	33	8,537	3.52%	33
Cash on fixed term deposit	5,000	2.50%	5	–	–	–
Combined	15,739	6.84%	27	15,166	5.97%	32

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

19b Credit Risk

Credit risk is the risk that the 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 £23,305,000 (2011: £20,718,000) 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 and high quality corporate bonds. The Company does not invest in floating rate instruments other than, on occasion, 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.

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 Limited, 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 Fund Manager monitors the Company's risk by reviewing the broker's internal control reports on a regular basis.

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 and broker (for the gilts) 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.

19. Financial Instruments (continued)

The maturities of the loan stock portfolio are as follows:

	2012 £000			2011 £000		
	<1 year	1-2 years	2-5 years	<1 year	1-2 years	2-5 years
Unquoted loan investments	2,218	634	5,366	5	2,405	6,482

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

	2012 £000			2011 £000		
	1-2 months	3-6 months	> 6 months	1-2 months	3-6 months	> 6 months
Interest	47	-	-	-	-	-
Capital repayment	667	-	-	-	223	-

19c Liquidity Risk

The risk to the Company relates to liabilities which fall due within one year. These liabilities are deemed immaterial and as such the risk associated with them is minimal.

The Company 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 quality corporate bonds and high interest deposit accounts. 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.

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. 19.5% (2011: 7.6%) of the Company's assets are in the form of liquid cash and cash equivalents. There are no undrawn committed borrowing facilities at either year end. The Company's largest liability at the year end is the accrued incentive fee of £1.56 million which will be paid out of the Company's cash reserves following the Annual General Meeting.

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 International Private Equity and Venture Capital ("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 2012 was £37.9 million (2011: £41.2 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: 03134749

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 20 July 2012 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 2012 be received.
- (2) That the final dividend of 3.0p per Ordinary share for the year ended 31 March 2012 be approved.
- (3) That the Directors' Remuneration Report for the year ended 31 March 2012 be approved.
- (4) That Mr P S Cammerman who retires by virtue of service of more than nine years, be re-elected as a director.
- (5) 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.
- (6) 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 £395,655 representing approximately 10% of the share capital in issue as at 13 June 2012 (excluding treasury shares) 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

- (7) 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 6 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 2012, 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 6 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 re-investment 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.
- (8) 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 pence each in the capital of the Company ("Ordinary shares") provided that:
 - (i) the maximum aggregate number of Ordinary shares that may be purchased is 5,930,868 being 14.99% of the issued Ordinary shares as at 13 June 2012;
 - (ii) the maximum price (excluding expenses) 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 excluding expenses which may be paid for an Ordinary share is its nominal value;
 - (iv) this authority shall take effect from 20 July 2012 and shall expire at the conclusion of the Company's Annual General Meeting in 2015 or on the expiry of 3 years 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

KHM Secretarial Services Limited

Secretary

13 June 2012

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

Information regarding the Annual General Meeting, including the information required by section 311 of the Companies Act 2006, is available from www.yfmeop.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 must be completed and signed by the member(s) and delivered with 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, 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 (and prior to the commencement of) 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 will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays 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 18 July 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members at 6pm on the day two days 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 18 July 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members after 6pm on the day two days 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 2012, the Company's issued share capital comprised 39,565,498 Ordinary shares of 10 pence each with a further 2,360,485 shares held in treasury. These treasury shares represented 6.0% of the total issued share capital (excluding treasury shares) at the aforementioned date. Each Ordinary share carries one voting right at a general meeting of the Company and so the total number of voting rights in the Company as at 13 June 2012 was 39,565,498. 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 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) In the case of joint members, any one of them may sign the Form of Proxy. The vote of the person whose names stands first in the register of members of the Company will be accepted to the exclusion of the votes of the other joint holders.
- k) 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 on the Form of Proxy, the proxy will vote or abstain from voting at his or her discretion. The proxy will also 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.
- l) 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 for any purpose other than those expressly stated.
- m) 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). 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 20 July 2012 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], [3] and [4]) _____ 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 20 July 2012 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 on the resolutions as indicated below. Please indicate with an 'x' how you wish your vote to be cast. If no voting indication is given, your proxy will vote or abstain from voting on the resolutions at their discretion.

	FOR	AGAINST	WITHHELD
Ordinary Business			
ORDINARY RESOLUTIONS			
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 Mr P S Cammerman as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint Grant Thornton UK LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To grant authority to allot shares (other than pursuant to the Dividend Reinvestment Scheme)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special Business			
SPECIAL RESOLUTIONS			
7. To authorise the directors to waive pre-emption rights in relation to the allotment of shares (other than pursuant to the Dividend Reinvestment Scheme)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorise the Company to make purchases of its own Ordinary shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature _____

Dated _____

2012

NOTES

- The Notice of the Annual General Meeting is set out on pages 63 to 64 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. Any such appointment can only be made using the procedures set out in these notes. 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 must be completed and signed by the member(s) and delivered with 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, 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 (and prior to the commencement of) the meeting at which the demand is made.
- In the case of a corporation, this Form of Proxy 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 of the Company 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 also 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.
- 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 above, the proxy appointment will remain valid.

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 20 July 2012 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

hlw 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

Independent Auditor

Grant Thornton UK LLP

2 Broadfield Court
Sheffield
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

Company Secretary

KHM Secretarial Services Limited

Old Cathedral Vicarage
St James Row
Sheffield
S1 1XA

British Smaller Companies VCT plc



Saint Martins House
210-212 Chapeltown Road
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T: 0113 294 5000
F: 0113 294 5002
E: leeds@yfmepl.com

Transforming Small Businesses
yfmepl.com

