British Smaller Companies VCT plc

Annual Report for the year ended
31 March 2008

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British Smaller Companies VCT plc

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

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

Financial Highlights

Ordinary Shares

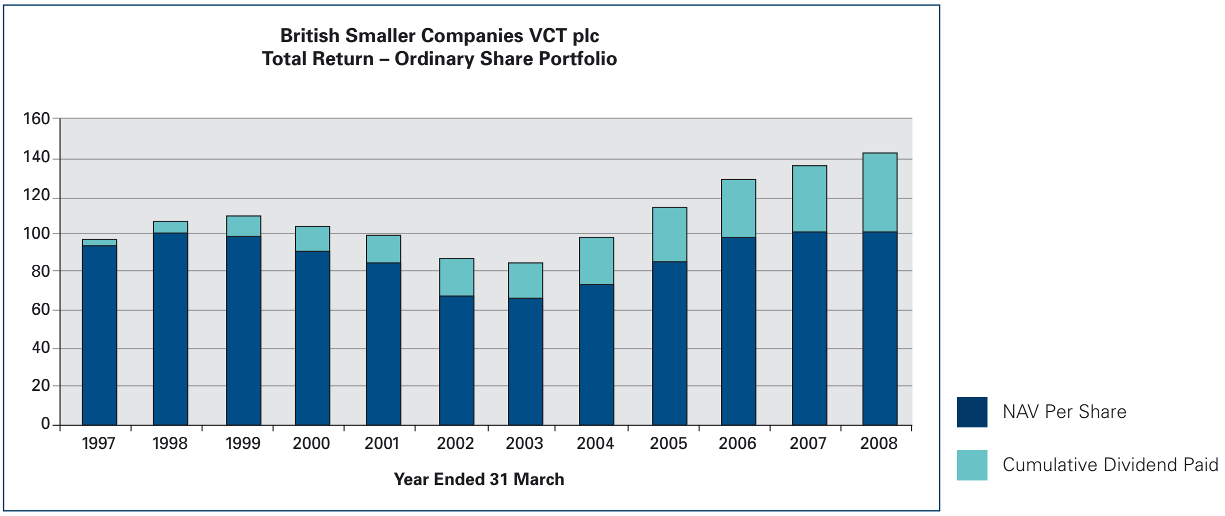
	2008	2007
Profit before taxation	**£2,205,000**	£1,225,000
Dividend per Ordinary share paid in the year	**5.0p**	4.5p
Total cumulative dividends paid per Ordinary share	**40.0p**	35.0p
Net asset value per Ordinary share	**102.1p**	101.3p
Total return per Ordinary share	**142.1p**	136.3p
Proposed final dividend per Ordinary share	**3.0p**	3.0p

C Shares

	2008*	2007
Profit before taxation	**–**	£113,000
Dividend per C share paid in the year	**–**	0.5p
Total cumulative dividends paid per C share	**–**	0.5p
Net asset value per C share	**–**	110.8p
Total return per C share	**–**	111.3p
Proposed final dividend per C share	**–**	–

*On 9 May 2007 the Company converted its C shares of 50p each into new Ordinary shares of 10p each.

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



Financial Calendar

- Results Announced 3 July 2008
- Ex-dividend Date 9 July 2008
- Record Date 11 July 2008
- Annual General Meeting 6 August 2008

Chairman's Statement

In this my last Chairman's statement, I am pleased to report the fifth successive year of growth in the total return on your investment in the Company. For the year to 31 March 2008, the total return, which takes into account both the net asset value and the level of dividends paid, has increased by 5.8 pence per Ordinary share or 4.3% to 142.1 pence per share. This represents an increase of 67.8% over the five year period.

This year has again seen a number of successful realisations which has both sustained the increase in asset value and enabled the Board to continue its dividend policy of distributing profits on investments, resulting in our recommendation to pay a final dividend of 3.0 pence per Ordinary share, bringing the total for the year to 5.0 pence per share.

Investment Portfolio

These realisations resulted in an increase in value of £2.3 million over the previously reported carrying value and an increase of £3.9 million over the original cost of acquisition. The most significant realisations were the investments in Cozart plc and Oasis Healthcare plc, which between them delivered £1.3 million of these profits. A further £0.3 million profit was realised on the Company's original investment in Tekton Limited relating to a residual holding in the shares of the purchaser, following the sale of Tekton 15 months earlier.

A total of £4.77 million was invested into nine businesses in the year. £3.4 million (71.8%) was invested in five unquoted companies, £1.1 million (23.6%) was invested in AIM listed businesses and £0.22 million (4.6%) was invested in an AIM company in exchange for the deferred consideration in respect of the realisation of an unquoted investment. Further information about these new investments can be found in the Fund Manager's Review. This contains a summary of all businesses in the current portfolio and a note of their website addresses to enable shareholders to get further information if they wish so to do.

Financial Results and Dividend

The net asset value of the Company at 31 March 2008 was 102.1 pence per share. Taking account of the dividends paid to date the total return for eligible founder shareholders at the balance sheet date was 142.1 pence per share.

The Company recorded an operating profit before investment gains for the year of £0.23 million (2007: loss £0.25 million) and a pre-tax profit of £2.2 million (2007: £1.3 million).

The performance of the Company reflects the benefits of increasing scale, higher yields and lower expense ratios which have all contributed to the increased operating profit. The level and amount of successful realisations has then further contributed to deliver the enhanced pre-tax profit.

As I reported in the interim results the previously issued C shares were converted during the year to Ordinary shares.

An interim dividend of 2.0 pence per share was declared on the Ordinary shares and paid in November 2007. The Board is now proposing a final dividend of 3.0 pence per share on the Ordinary shares. If approved, this dividend will be paid on 8 August 2008 to shareholders on the register at 11 July 2008. The final dividend has not been recognised in the accounts under IFRS as the contractual obligation did not exist at the balance sheet date.

For the benefit of shareholders the Board would like to introduce a dividend re-investment scheme. Details of the new proposals will be issued to shareholders. The resolutions being put to shareholders at the AGM provide the necessary authorities for the directors to introduce a new scheme which, if approved, will apply to any future dividend payments after the final proposed dividend for the year to 31 March 2008.

Performance Incentive

The Board has reviewed the existing Performance Incentive Scheme for the Fund Manager. The Board feels that the existing scheme, as well as being relatively complex, is what is known as a benchmark scheme (tracking total return against the FTSE All Share Index) and is no longer appropriate for this Company. Whilst this scheme has merits, the Board has taken the view that, particularly in times of declining markets (when a flat performance could trigger an incentive payment), the scheme does not best align itself with the Company's policy of combining consistent dividend payments and net asset value performance. Consequently, the Board is proposing to recommend that shareholders replace this scheme with one that focuses on growth and distributions as well as setting a new hurdle, with the expectation that some time will be required to achieve this hurdle.

Details of the proposed new arrangement will be issued to shareholders for approval during the coming year.

The Company has strong cash reserves as a result of the realisation programme and recent fundraisings. This leaves it well positioned to take advantage of new investment opportunities that arise over the next twelve months and to provide follow-on investment funding to existing investee companies.

The combination of reducing debt capacity, a reducing public market appetite and any slowdown in economic growth may elicit further opportunities to acquire strong investments at attractive prices. The Board consistently reviews the current level of liquidity in the Company to ensure that it remains well placed to take advantage of these opportunities as they arise.

Shareholders and Fundraising

On 4 January 2008, the Board published proposals offering investors the opportunity to subscribe for up to 5 million new Ordinary shares in the Company at an offer price of 106.25 pence per share. These proposals were by way of two offers closing on 4 April 2008 and 30 April 2008 respectively. Shareholders were given priority to apply for shares up to 21 March 2008. I am delighted to report that the Offers raised a total of £5.3 million before expenses, with 68% of this total resulting from existing shareholders. In addition, a further 382,619 shares were issued by the directors since the financial year end. The Board remains grateful for this level of support and the Company has begun to take advantage of the opportunities that are available as a result of the additional investment capacity.

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 a total of 752,802 shares during the year, at an average price of 89 pence per share. These shares are held in treasury. The existing buy back authority which currently expires on 8 August 2008 is proposed to be extended until the next AGM or fifteen months, whichever is the earlier. A resolution to this effect will be proposed at the Company's AGM on 6 August 2008.

Outlook

There have been recent announcements in respect of venture capital trusts being exempted from VAT on management fees from 1 October 2008. Whilst details of the implementation of this change have yet to be published, the Board welcomes the changes which it believes can only positively affect the Company.

The Company has achieved significant realisations and has increased the rate of new investment that is developing a portfolio containing maturing and growing investments with the emphasis remaining on unquoted investments.

Our investment strategy has been to seek to invest in growing businesses where we have confidence in the ability of management to produce attractive returns even in difficult trading conditions without over- leveraging investee companies with debt. These companies are spread over a broad range of sectors and even though economic conditions are deteriorating we believe that our portfolio is well-placed to deal with the challenges that lie ahead. Where investee companies' strategies include growth by acquisition, the Board believes that as a result of the economic climate these strategies could be either accelerated or achieved at more attractive prices than was previously possible.

Board and Other Changes

As I have previously stated, I retire as Chairman at this AGM and will be replaced by Helen Sinclair, who joined the Board in March of this year.

In addition Steve Noar, who has been a Board Member since May 2005, stepped down on 30 June, following his decision to re-locate outside the UK. I would like to thank Steve for his invaluable contribution during his time as a member of this Board.

Can I take this opportunity to thank you for your continued support over the years and to wish you and Helen well for the future.

Andrew Hugh Smith

Sir Andrew Hugh Smith
Chairman
3 July 2008

Portfolio Valuation at 31 March 2008 and history of realisations up to 31 March 2008

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost £000	Realised Proceeds to Date* £000	Investment Valuation at 31 March £000	Realised and Unrealised to Date £000
Current Investments:							
Connaught plc	Nov-98	Sidmouth	Consumer Products	460	784	1,356	2,140
GO Outdoors Ltd	May-98	Sheffield	Consumer Products	556	460	1,572	2,032
Sheet Piling (UK) Ltd	Jun-00	Preston	Construction	500	410	1,389	1,799
Cater Plus Services Ltd	Feb-07	Watford	Support Services	1,000	–	1,313	1,313
RMS Ltd	Jul-07	Goole	Industrial	900	–	900	900
Harvey Jones Ltd	May-07	London	Manufacture	777	–	777	777
Mattioli Woods plc	Nov-05	Leicester	Support Services	326	–	727	727
Ellfin Home Care Ltd	Dec-07	Oldham	Healthcare	650	–	650	650
Pressure Technologies plc	Jun-07	Sheffield	Industrial	425	–	623	623
Harris Hill Ltd	Jun-07	London	Recruitment	600	–	600	600
Fishawack Ltd	Jan-08	Knutsford	Communications	500	–	500	500
Images at Work Ltd	Mar-99	Salisbury	Support Services	615	320	178	498
Hargreaves Services plc	Dec-07	Durham	Industrial	469	–	465	465
Tikit plc	Jun-01	London	Software	226	–	441	441
Payzone plc	Jun-02	Lytham St Annes	Consumer Products	318	311	118	429
Denison Mayes Group Ltd	Aug-98	Leeds	Industrial	700	235	65	300
Primal Pictures Ltd	Mar-01	London	Healthcare	500	–	276	276
Patsystems plc	Oct-07	London	Software	222	–	205	205
Straight plc	Feb-04	Leeds	Industrial	341	64	155	219
Freshroast Coffee Co. Ltd	Jul-96	Elland	Consumer Products	160	166	36	202
Brulines plc	Oct-06	Stockton-on- Tees	Software	163	–	185	185
Hexagon Human Capital plc	Feb-07	London	Support Services	200	–	146	146
Cambridge Cognition Ltd	May-02	Cambridge	Software	325	–	130	130
Belgravium Technologies plc	Oct-05	Bradford	Software	200	–	121	121
Landround plc	Aug-99	Chester	Consumer Products	283	–	19	19
SBS Group plc	Mar-98	London	Support Services	100	–	–	–
				11,516	**2,750**	**12,947**	**15,697**
Full realisations since March 2002				8,634	12,718	–	12,718
Full realisations prior to March 2002				6,394	3,246	–	3,246
Total realised and unrealised to date				**26,544**	**18,714**	**12,947**	**31,661**

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

Investment Portfolio

This section describes the business of the active companies in the portfolio, in order of valuation at 31 March 2008 as detailed on page 7. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed.

Connaught plc

Sidmouth
www.connaught.plc.uk

Cost	£102,098
Valuation	£1,356,405
Dates of investment	November 1998, June 1999, January 2001, March, June, September and November 2005, March, October, November and December 2006, January, July and October 2007.
Equity held	0.29%
Valuation basis	Quoted bid price

Year ended 31 August	**2007** **£million**	2006 £million
Sales	**395.87**	299.75
Profit before tax	**15.84**	12.97
Retained profits	**24.42**	14.08
Net assets	**52.67**	41.12

Connaught operates as a facilities management and integrated property services group, engaged in building maintenance, electrical and compliance work, primarily in the social housing sector. Connaught's listing was transferred to the main market towards the end of the calendar year 2006, although the investment remains VCT qualifying for a period up to five years from that transfer. The interim results to 29 February 2008 showed further progress with sales up 55% to £256 million and operating profit up 84% to £15.8 million.

GO Outdoors Limited

Sheffield
www.gooutdoors.co.uk

Cost	£155,697
Valuation	£1,571,585
Dates of investment	May 1998, March 2002 and April 2007
Equity held	21.8%
Valuation basis	Earnings multiple

52 weeks ended	**27 Jan 2007** **£million**	29 Jan 2006 £million
Sales	**22.62**	14.37
Profit before tax	**0.52**	0.76
Retained profits	**1.44**	1.26
Net assets	**6.43**	5.61

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

Sheet Piling (UK) Limited

Preston
www.sheetpilinguk.com

Cost	£110,000
Valuation	£1,388,857
Date of investment	June 2000
Equity held	36.0%
Valuation basis	Earnings multiple

Year ended 29 May	**2006** **£million**	2005 £million
Sales	**11.37**	10.04
Profit before tax	**0.62**	0.67
Retained profits	**1.20**	1.02
Net assets	**1.57**	1.38

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

Cater Plus Services Limited

Watford
www.caterplus.co.uk

Cost	£1,000,000	Period ended 31 March	**2007 £million**
Valuation	£1,312,563		
Date of investment	February 2007	Sales	**1.92**
Equity held	26.67%	Profit before tax	**0.06**
Valuation basis	Earnings multiple	Retained profits	**0.02**
		Net assets	**0.39**

The Company invested to support the management buy-in/management buy-out of this specialist supplier of catering services to the residential and care home sector in February 2007. The company operates across the UK supplying both catering services and undertaking purchasing contracts on behalf of residential and care homes. The results set out above are for a nine month period, but only include trading for two months from the date of investment. Subsequent to the year end Cater Plus Services acquired Taylor Shaw Limited.

RMS Group Holdings Limited

Goole
www.rms-europe.co.uk

Cost	£900,000	Period ended 31 December	**2007 £million**
Valuation	£900,000		
Date of investment	July 2007	Sales	**13.40**
Equity held	8.82%	Profit before tax	**0.53**
Valuation basis	Price of recent investment, reviewed for impairment	Retained profits	**0.29**
		Net assets	**5.85**

RMS Group is a provider of stevedoring and logistics services and operates from five sites on the Humber Estuary. It plans to enhance its currently profitable operations. The results set out above are for an eight month period, but only include trading for the six month period from the date of investment, when the company acquired RMS Europe Group Limited.

Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost	£777,143
Valuation	£777,143
Date of investment	May 2007
Equity held	6.88%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for Harvey Jones Holdings Limited following investment are not yet due.

Harvey Jones is a retailer of high quality kitchen furniture with its own manufacturing facility in the UK and thirteen stores mainly in London and wealthy provincial towns. It plans to roll out the number of stores organically and build brand recognition over a 3 to 5 year period.

Mattioli Woods plc

Leicester
www.mattioli-woods.com

Cost	£325,922	Year ended 31 May	**2007 £million**	2006 £million
Valuation	£727,505			
Dates of investment	November 2005, February, March, October 2006 and July 2007	Sales	**9.00**	7.57
Equity held	1.43%	Profit before tax	**3.15**	2.17
Valuation basis	Quoted bid price	Retained profits	**3.88**	2.07
		Net assets	**11.86**	9.66

Mattioli Woods provides pensions consultancy and administration services primarily to owner-managers, senior executives and other professionals. The Group's key activities include complex pensions consultancy, the provision of Self-Invested Personal Pensions ("SIPP") and Small Self-Administered Pension Schemes ("SSAS") and advice on related business affairs. The six months results to 30 November 2007 saw turnover increase 22% to £5.3 million and pre-tax profits up 16% to £1.8 million.

Ellfin Home Care Limited

Oldham

Cost	£650,000
Valuation	£650,000
Date of investment	December 2007
Equity held	10.32%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for Ellfin Home Care Limited following investment are not yet due.

Ellfin Home Care is a domiciliary care business providing care in the home services to both public and private clients. The company was established as a vehicle to acquire a number of home care businesses forming a North West Group over a 5 year period. To date one acquisition has been completed. Further funding is anticipated to be required to fulfil the growth strategy.

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost	£425,176
Valuation	£623,553
Dates of investment	June and July 2007
Equity held	2.5%
Valuation basis	Quoted bid price

Year ended 30 September	**2007 £million**	2006 £million
Sales	**15.12**	8.17
Profit before tax	**1.41**	0.84
Retained profits	**1.96**	0.73
Net assets	**7.87**	0.90

Pressure Technologies plc designs, manufactures and offers testing and refurbishment services for a range of speciality high pressure, seamless steel gas cylinders for global energy and defence markets. It is the dominant supplier of these products to manufacturers of offshore floating drilling rigs, used in deepwater oil and gas exploration. Interim results for the six months to 29 March 2008 saw sales increase by 60% to £11.7 million and operating profit increase by 288% to £2.3 million.

Harris Hill Limited

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

Cost	£600,000
Valuation	£600,000
Date of investment	June 2007
Equity held	9.29%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for Harris Hill Limited following investment are not yet due.

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.

Fishawack Limited

Knutsford
www.fishawack.com

Cost	£500,000
Valuation	£500,000
Date of investment	January 2008
Equity held	5.49%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for Fishawack Limited following investment are not yet due.

Fishawack is an established, specialist healthcare communications agency focusing on the medical sector, with a strong reputation for providing specialist support for many of the world's top global pharmaceutical companies.

Images at Work Limited

Salisbury
www.iaw.co.uk

Cost	£295,000
Valuation	£177,616
Date of investment	March 1999
Equity held	33.33%
Valuation basis	Earnings multiple

Year ended 30 September	**2007 £million**	2006 £million
Retained (losses) profits	**(0.01)**	0.04
Net assets	**0.68**	0.73

Images at Work Limited has a small companies exemption from filing audited financial statements at Companies House.

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

Hargreaves Services plc

Esh Winning, Durham
www.hargreavesservices.co.uk

Cost	£468,550
Valuation	£464,695
Dates of investment	December 2007, January, February and March 2008
Equity held	0.36%
Valuation basis	Quoted bid price

Year ended 31 May	**2007 £million**	2006 £million
Sales	**240.11**	146.98
Profit before tax	**8.63**	5.47
Retained profits	**7.29**	3.29
Net assets	**41.83**	26.30

In the years following its founding in 1994 Hargreaves 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 also operates a colliery and a coking plant. Interim results to 30 November 2007 saw sales increase by 70% to £174 million and operating profit up 114% to £4.3 million.

Tikit Group plc

London
www.tikit.com

Cost	£226,009
Valuation	£441,117
Dates of investment	June 2001, March and November 2006, January and April 2007
Equity held	1.53%
Valuation basis	Quoted bid price

Year ended 31 December	**2007 £million**	2006 £million
Sales	**26.43**	23.52
Profit before tax	**3.93**	2.13
Retained profits	**5.02**	2.99
Net assets	**8.28**	6.94

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 a majority of the top 50 UK legal practices. The benefits of scale from recent acquisitions have accelerated with annualised turnover now in excess of £26 million which has been reflected in strong profit growth.

Payzone plc

Dublin
www.payzone.co.uk

Cost	£119,915
Valuation	£118,131
Dates of investment	June 2002, April 2005, June and September 2006
Equity held	0.08%
Valuation basis	Quoted bid price, at 17 January 2008 prior to temporary suspension

Statutory accounts are not yet due for Payzone plc.

The holding in Payzone has arisen as a result of the acquisition of Cardpoint by Alphyra Holdings Ltd in December 2007. The company is one of the UK's leading independent providers of ATMs (cashpoints) and has grown rapidly by acquisition and organically. The first set of interim results for the combined entity for the six months to 31 March 2008 delivered sales of €449 million and an operating loss of €153 million. Payzone has recently announced the successful closing of a placing for €40 million and a securing of banking facilities.

Denison Mayes Group Limited

Leeds
www.denisonmayesgroup.com

Cost	£65,000
Valuation	£65,000
Dates of investment	August 1998
Equity held	Nil
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 30 June	**2007 £million**	2006 £million
Retained loss	**(0.89)**	(1.01)
Net liabilities	**(0.34)**	(0.46)

Dennison Mayes Group Limited has a small companies exemption from filing audited financial statements at Companies House.

Denison Mayes primary activity is the servicing and calibration of a wide range of materials testing equipment used in the engineering and academic markets. An agreement was reached to sell the equity stake in this company back to management in September 2001, your Company has a residual loan of £65,000 remaining to date.

Primal Pictures Limited

London
www.primalpictures.com

		Year ended 31 December	2006 £million	2005 £million
Cost	£500,000	Sales	**2.02**	1.93
Valuation	£276,413	Loss before tax	**(0.25)**	(0.50)
Date of investment	March 2001	Retained losses	**(5.32)**	(5.15)
Equity held	3.78%	Net liabilities	**(1.94)**	(1.84)
Valuation basis	Price of recent investment, reviewed for impairment			

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

Patsystems plc

London
www.patsystems.com

		Year ended 31 December	2007 £million	2006 £million
Cost	£222,002	Sales	**16.96**	15.26
Valuation	£205,246	Profit before tax	**2.19**	1.63
Dates of investment	October 2007 and March 2008	Retained losses	**(7.44)**	(8.95)
Equity held	0.46%	Net assets	**18.69**	13.73
Valuation basis	Quoted bid price			

The holding in Patsystems has arisen as a result of deferred consideration payable in shares on the acquisition of Tamesis in August 2005. Patsystems develops trading and risk management systems for derivatives traders and is seeing good demand for the Tamesis product, which is the only real-time risk management system available currently. Expectations are that 2008 results will be similar to those of 2007.

Straight plc

Leeds
www.straight.co.uk

		Year ended 31 December	2007 £million	2006 £million
Cost	£301,236	Sales	**23.59**	27.84
Valuation	£154,522	Profit before tax	**0.59**	1.96
Dates of investment	February 2004, January, March and November 2005 and May 2006	Retained profits	**3.22**	3.12
Equity held	2.54%	Net assets	**10.21**	10.02
Valuation basis	Quoted bid price			

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

Freshroast Coffee Co. Limited

Elland

Cost	£5,271
Valuation	£35,840
Date of investment	July 1996
Equity held	12.97%
Valuation basis	Earnings multiple

Year ended 31 December	2006 £million	2005 £million
Retained profits	**0.06**	–
Net assets	**0.26**	0.20

Freshroast Coffee Co. Limited has a small companies exemption from filing audited financial statements at Companies House.

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

Brulines (Holdings) plc

Stockton-on-Tees
www.brulines.com

Cost	£162,530
Valuation	£184,940
Dates of investment	October 2006 and July 2007
Equity held	0.55%
Valuation basis	Quoted bid price

Year ended 31 March	2008 £million	2007 £million
Sales	**17.06**	16.76
Profit	**2.86**	1.46
Retained profits	**4.26**	2.46
Net assets	**13.26**	11.71

Brulines is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK Licensed on-trade, in particular the tenanted pub sector. Brulines' IPO in October 2006 raised a total of £19.6 million.

Hexagon Human Capital plc

London
www.hexagonhc.com

Cost	£200,190
Valuation	£145,574
Dates of investment	February and July 2007
Equity held	0.66%
Valuation basis	Quoted bid price

Period ended	31 Mar 2007 (15 mths) £million	31 Dec 2006 (12 mths) £million
Sales	**10.93**	2.37
Profit before tax	**0.12**	0.17
Retained losses	**(0.62)**	(0.12)
Net assets	**14.25**	0.01

Hexagon invests in high performance businesses that provide Leadership Talent, Human Capital Research and Talent Management to many of the world's leading companies. Preliminary results for the year ended 31 March 2008 saw sales up 84% to £19.5 million and operating profits increased by 250% to £5.7 million.

Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost	£325,000
Valuation	£130,045
Date of investment	May 2002
Equity held	4.56%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 December	**2006 £million**	2005 £million
Sales	**1.12**	1.78
Loss before tax	**(1.22)**	(0.54)
Retained losses	**(4.34)**	(3.13)
Net assets	**1.58**	1.21

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental conditions especially Alzheimer's, Schizophrenia and Attention Deficit Hyperactivity Disorder (ADHD). It supplies licenses and software to pharmaceutical, academic and medical customers throughout the world, having already sold its products into over 500 universities and 50 countries. The company raised £1.5 million in early 2008 to continue funding it through the period of application for FDA approval in the USA, and to widen its offering to the pharmaceutical markets.

Belgravium Technologies plc

Bradford
www.belgravium.com

Cost	£200,000
Valuation	£121,428
Date of investment	October 2005
Equity held	1.42%
Valuation basis	Quoted bid price

Year ended 31 December	**2007 £million**	2006 £million
Sales	**10.64**	10.92
Profit before tax	**2.05**	1.84
Retained losses	**(0.89)**	(1.81)
Net assets	**9.19**	8.23

Belgravium is a computer design and manufacturing company, specialising in innovative mobile computers for the logistics, fuel and aviation markets. The Fund invested on the acquisition of the complementary Touchstar Technologies in October 2005.

Landround plc

Chester
www.landround.com

Cost	£282,929
Valuation	£18,711
Dates of investment	August 1999, January 2000, January and February 2001
Equity held	1.03%
Valuation basis	Quoted bid price

Year ended 31 January	**2008 £million**	2007 £million
Sales	**6.57**	5.27
Loss before tax	**(1.68)**	(1.96)
Retained losses	**(5.17)**	(3.45)
Net (liabilities) assets	**(0.35)**	1.34

Landround specialises in creating and serving innovative low cost, high value, travel and holiday themed promotions for hundreds of leading companies. Its travel reward programme, 'Buy and Fly', is now established in a number of European countries. The business was fundamentally restructured in 2007.

Introduction

We are pleased to report a profit before tax of £2.2 million in the year. The financial year began with a buoyant market and high levels of available debt funding. However these market conditions changed markedly during the year. Although this created uncertainty, an active mergers and acquisitions market continued to the year end partially as a result of changes to personal Capital Gains Tax linked to the end of the tax year. Against this background your Company has achieved two profitable disposals from takeovers of two of its AIM quoted investments and realised a further three of its unquoted investments. Cozart plc, a drugs of abuse testing company, was acquired by Concateno plc generating total proceeds of £2.2 million for the Company. This gave a profit of £0.9 million during the year and equated to 4.9 times the original investment made when this was an unquoted company, several years prior to its flotation on AIM. Oasis Healthcare plc was also disposed of during the year resulting in a profit of £0.68 million over cost.

JDA Ltd a north of England based advertising agency, and RMF Engineering Ltd were both realised in the year generating profits over their original cost. The residual holding in the specialist construction industry software business Tekton Group Ltd was also sold in the last quarter. These, together with some smaller partial disposals, resulted in total realisations of £5.2 million.

Investment Activity

We have increased the investment rate on a selective basis during the year although we have been careful to ensure sensible gearing levels in those investments made. £4.77 million has been invested in total during the year. £3.43 million of this has been invested into five new unquoted businesses. This follows the investment strategy where the emphasis is to make 75-80% of new investments into unquoted companies with the balance into AIM companies. The higher level of AIM realisations than unquoted disposals has also reduced the Company's overall exposure to the AIM market at a time when quoted markets are volatile.

All five of these investments have been made alongside other funds under the management of YFM allowing the VCT access to businesses of a larger critical mass than would be available on a stand alone basis.

Your Company completed an investment of £0.9 million into the Humber based RMS Group Holdings Ltd, a provider of stevedoring logistic services. The investment was made in support of a new Chief Executive with a total rollover of proceeds by the remaining incumbent management team.

£0.78 million was invested during the year in Harvey Jones Ltd, a fitted kitchen furniture specialist. This funding was supplied to back the MBO and subsequent roll-out of the store network. The first year's results have been above budget and the roll-out is being carefully monitored given the uncertain economic climate.

In June 2007 a new investment of £0.6 million was made into Harris Hill Ltd to support the previous CEO of Office Angels Ltd in a management buy-in. Harris Hill is the UK's leading Charity and 'not-for-profit' recruitment specialist and the intention is to expand both organically and by acquisition creating a strong brand in this niche area.

A new investment of £0.65 million was made into Ellfin Home Care Ltd to enable a two person MBI team to acquire a domiciliary healthcare business based in the North West of England. The intention is to expand from the base both organically and by acquisition and the Company is in advanced discussions in respect of its first acquisition. In line with the original plan this may require a small additional investment by your Company.

During the last quarter a new investment of £0.5 million was made into Fishawack Ltd. Fishawack is an established communications agency, specialising in the medical sector and the funding supported an MBO of this business.

A new qualifying investment of £0.43 million was made into Pressure Technologies plc on its admission to AIM in June 2007. Pressure Technologies manufactures and designs high pressure seamless steel gas cylinders to the global energy markets. The management team were known to the wider YFM Group over a period of years running up to the flotation thereby reducing some of the risks inherent in investing in new issues. They have posted immediate healthy gains, and were showing a 47% uplift at the end of the year.

One new non-qualifying investment of £0.47 million was made into Hargreaves Industrial Services plc in the last quarter. This investment was into a company known to the Fund Manager prior to its flotation and seen as undervalued at the time of investment. Investments into such quoted companies that do not count toward the qualifying ratios are being made on a very selective basis and will constitute no more than 10-15% of available cash resources.

The investment policy which has been pursued for the past few years has delivered a return on net asset value of 40.2% over 3 years and 91.2% over 5 years (Source: Trustnet.com) which compares well with sector averages of 1.1% and 16.1% respectively (Source: Trustnet.com). It is the intention to continue to adhere to this strategy of backing credible management teams with ambition and vision to deliver capital growth.

Fund Manager's Review

Following the high level of realisations and the raising of an additional £5.3m in the recent fundraising and £9.2m last year, the Company is well resourced to increase its investment activity. Given the credit crunch and tighter lending criteria of the banks this should result in enhanced equity opportunities once this has fully fed through the system. We expect to see evidence of this in the second half of the forthcoming year.

Subsequent to the year end an investment of £0.4 million has been made into Darwin Rhodes Group Ltd, a specialist international recruitment company operating in several niche areas such as insurance and actuarial. As well as this unquoted investment an investment of £0.4 million has been made into AIM quoted K3, a software company operating in the manufacturing and retail sectors.

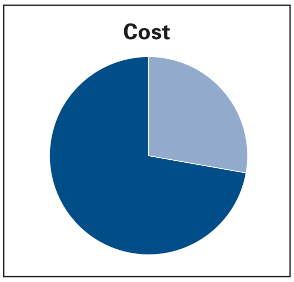
As explained in the Portfolio Performance section below, the opportunity was taken to exit from several investments to take advantage of a buoyant mergers and acquisition market. We would envisage the coming year to be less buoyant for exits as a result of a more uncertain economic environment and the difficulty of obtaining bank funding for purchasers.

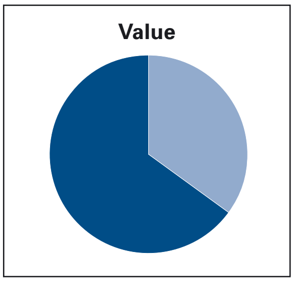
Portfolio Performance

The portfolio has delivered a noteworthy rise driven in particular by realisations of five of the Company's investments including AIM quoted Oasis Healthcare plc and Cozart plc.

Overall the AIM portfolio outperformed the market during the year with several strong performers including Pressure Technologies which was showing an 47% uplift since it was invested during the year. The unquoted portfolio delivered growth through exits of RMF, Tekton and JDA. Uplifts were also recorded from additional deferred receipts from Secure Mail Services Ltd and Patsystems (in respect of Tamesis). Movements in the valuation of the remaining unquoted investments was broadly neutral with a reduction in the valuation of GO Outdoors being largely offset by an increase in Caterplus.

Current Portfolio by Stock Type





AIM
Unquoted

AIM Portfolio

Overall the AIM portfolio has performed well showing a 17% increase of year end value or exit value over cost or the value at the start of the year. This is compared to an overall AIM All-Share market fall of 16.3% over the same period.

The full disposal of the Company's holding in Oasis and Cozart and a partial sale of Connaught shares resulted in the value of AIM stocks at 31 March 2008 reducing to £4.6 million compared to a value of £6.0 million at the start of the year (Ordinary shares and 'C' shares combined). Seven of the retained AIM stocks fell in value during the year. The largest drop, relating to Straight plc, fell from £0.3 million to £0.16 million although it has shown a reasonable recovery since the year end. The next largest, Tikit, fell £0.12 million although again this has shown some recovery since. The others showing a reduction are relatively modest in value.

Whilst there are creditable performances from many of the constituents of the portfolio in a difficult market, it is particularly encouraging to see the progress made at Pressure Technologies Ltd, which showed a 47% uplift since investment in June 2007. Additional shares were received in Patsystems as a result of the deferred receipts from the sale of the Company's investment in Tamesis in a previous year.

Unquoted Portfolio

The year under review saw three companies sold out of the unquoted portfolio; Tekton Group Ltd, RMF Engineering Ltd and The JDA Group which between them delivered gains of £0.45 million over the year.

The GO Outdoors group of destination stores has continued to grow its market reach by opening two further new stores and we remain confident about its continued growth. The reduction of £0.34 million in the carrying value of this investment is largely a result of the earnings multiple applied due to a deterioration of market conditions. The investment held in Caterplus has been uplifted, as this is now being valued on an earnings multiple as opposed to cost and this has resulted in an uplift of £0.3 million.

The original investment into Tekton Group Ltd of £0.4 million was realised last year but, as previously reported, your Company was able to rollover and reinvest £0.2 million (original cost £6k) into the larger entity, purchasing this investment on favourable terms. This residual investment was disposed of in March 2008 producing a further profit over cost and valuation of £0.3 million.

RMF Engineering was one of the Company's earliest investments in 1997 and during the year we were able to take advantage of buoyant market conditions to dispose of the residual holding. This generated a profit of £0.16 million over the residual carrying value.

The Company's stake in The JDA Group, a north of England advertising agency was also sold during the year for proceeds of £0.29 million, producing a profit of £0.26 million on original cost.

Secure Mail Services Ltd (formerly Special Mail Services Ltd) was sold to Mail Acquisitions Ltd in September 2006. On completion your Company received £1.11 million for its original investment of £0.36 million, achieving a cash multiple (excluding income returns) of 3.1 over four years. There was also provision for a deferred consideration payment, and additional monies were held in escrow dependent on resolution of certain issues. In view of the uncertainties regarding the release of deferred and escrow considerations value had only been ascribed to a small proportion of future payments at the time of exit. Several of these issues were resolved to your Company's advantage during the current year resulting in additional cash proceeds of £0.24 million and a profit of £0.15 million on carrying value.

On the sale of the Company's investment in Tamesis to Patsystems, in a prior year, conditional deferred payments were due depending on certain performance criteria of the acquired company. Due to the uncertainty of any payments no value was ascribed at the time of exit. However several of these conditions were met during the year resulting in the issue to the Company of shares in Patsystems Plc with a value of £0.22 million.

Other Matters

On 3 April 2008 GLE Limited acquired YFM Group (Holdings) Limited, the ultimate parent company of YFM Private Equity Limited. GLE Limited is a company limited by guarantee with significant assets which sees YFM Group's business as complimentary to its own. GLE Limited remains committed to supporting the management of YFM Private Equity Limited and does not propose to make changes to the operation of the company.

Summary and Outlook

The British Smaller Companies VCT plc continues to be one of the top ten performing Venture Capital Trusts over three and five years (Source: Trustnet.com). This performance resulted in YFM Private Equity Ltd being chosen as the UK's VCT Fund Manager of the Year by Growth Company Investor last year and being shortlisted once again this year.

The strong performance has generated a total return of 142.1 pence per Ordinary share of which 40 pence has been paid in the form of tax free dividends.

With a good level of liquid resources the Company is very well positioned to take advantage of any retraction by the banks and potentially lower entry valuations arising from the current uncertain market conditions. The investment rate increased during the year and we would expect this to continue for the next few years from introductions made from our intermediary contacts and the growing portfolio of the YFM Group's network of nine regional offices.

The successful exits achieved during the year generated a combined cash excess above cost of £3.88 million and investments of £4.77 million were made.

David Hall
Managing Director
YFM Private Equity Limited
3 July 2008

Valuation of Investments

Initial Measurement

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

Subsequent Measurement

The International Private Equity and Venture Capital (IPEVC) Valuation 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.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party, but is only considered relevant for a limited period following the date of the relevant transaction. A period of twelve months is used in practice. During this period, the value of the investment is assessed for changes or events that would imply impairment to the fair value. In addition, the valuation technique also represents certain situations where although the twelve month period has expired, an alternative valuation technique is not followed because an additional investment has been made by the Company at the same price as the previous investment and an alternative valuation technique would not result in a better estimate of fair value. The whole investment is also assessed for impairment.

- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company.

- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.

- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounting by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.

- **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

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

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

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

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

Quoted Investments

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

Directors

Sir Andrew Colin Hugh Smith – Chairman (76)

Following a career at the Bar and in industry, became a partner of Capel Cure Myers in 1970, senior partner in 1979 and left the firm in 1988 to become chairman of the London Stock Exchange. He retired from the Exchange in 1994. He was chairman of British Smaller Technology Companies VCT 2 plc from its inception until December 2007.

Helen Sinclair (41) – Appointed 1 March 2008

Starting in investment banking, Helen spent 8 years at 3i plc focusing on MBO and growth capital investments. She co-founded Matrix Private Equity raising a successful technology fund, the Matrix Venture Fund VCT plc and a generalist fund, the Matrix Enterprise Fund. She subsequently became Managing Director of Matrix Private Equity before moving to take on a portfolio of roles in 2004. She is a Non-Executive Director of Hotbed Fund Managers Ltd, The Income & Growth VCT plc and Matrix Income & Growth 4 VCT plc and is an appointed advisor to the fund manager of Trapezia Capital Partners II LP and the Creative Capital Fund.

Philip Simon Cammerman (66)

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 23 years in the venture capital industry and was chairman of YFM Private Equity Limited and a director of YFM Group Limited until 3 April 2008. He has been responsible for a wide range of venture capital deals in a variety of industries including hi-tech, software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of British Smaller Technology Companies VCT 2 plc and was appointed to the board of Pressure Technologies plc on 14 April 2008.

Richard Last (50)

Qualified as a chartered accountant with PricewaterhouseCoopers LLP. He is chairman of Xpertise Group plc, an AIM quoted IT training group, Knowledge Technology Solutions plc, an AIM listed IT software company and, on 1 January 2008, became chairman of British Smaller Technology Companies VCT 2 plc. He is a non-executive director of Patsystems plc and Financial Payment Systems Limited, both AIM quoted software companies, and Lighthouse plc, an AIM quoted provider of financial services.

Robert Martin Pettigrew (63)

Has more than 20 years experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Sagentia) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is an investor-director on the board of a number of technology companies, including Sphere Medical Limited, Timberpost Limited and Acal Energy Limited (of which he is Chairman). He is also a non-executive director of British Smaller Technology Companies VCT 2 plc.

Stephen John Noar (60) – Resigned 30 June 2008

A dentist by profession, he was the founder chairman and former chief executive of Denplan Limited until its successful trade sale in 1993 following its growth from start up to a turnover in excess of £70m. He was the New Business and Dental Director of PPP Limited (prior to the company's acquisition by Guardian Royal Exchange) responsible for developing dental and other services. In 1994 he was the winner of the Financial Times Venturer of the Year award. He is a non-executive director of British Smaller Technology Companies VCT 2 plc and was a non-executive director of Cozart plc until October 2007.

Secretary and Registered Office

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

Registered No: 3134749

For the Year Ended 31 March 2008

The directors present their report and audited accounts of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2008.

Principal Activity

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

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

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

Business Review

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

Principal Risks, Risk Management and Regulatory Environment.

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

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

Loss of approval as a Venture Capital Trust – the Company must comply with Chapter 3 Part 6 of the Income Tax Act 2007. 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 any future capital gains on the shares and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains. As such one of the key performance indicators monitored by the Company is the compliance with legislative tests. See below for more detail.

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

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

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

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

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

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

The Board seeks to mitigate the internal risks by setting policy, regular review of performance, monitoring progress and compliance. The key performance indicators measure the Company's performance and its compliance with legislative tests. In the mitigation and management of these risks, the Board rigorously applies the principles detailed in the "Turnbull" guidance. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on pages 25 to 28.

Key Performance Indicators

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

Total Return

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

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

The evaluation of comparative success of the Company's total return is by way of reference to the net cost of investment for the founder eligible shareholder which was 80 pence per share (net of 20% basic tax relief) and by comparison to the FTSE™ All-Share Index over that same period. This is the Company's stated benchmark index. 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 and Chapter 4 of the Income Tax Act 2007, in addition to the requirement for a VCTs ordinary capital to be listed in the Official List on the London Stock Exchange throughout the period, there are five further tests that VCTs must meet on a continuing basis following the initial three year provisional period.

Income Test
The Company's income in the period must be derived wholly or mainly from shares or securities.

Retained Income Test
The Company must not retain more than 15% of its income from shares and securities.

Qualifying Holdings Test
At least 70% by value of the Company's investments must be represented throughout the period by shares or securities comprised in qualifying holdings of the Company.

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.

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 Board receives regular reports on compliance with the VCT legislative tests from YFM Private Equity. 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.

Results and Dividends

The Income Statement for the year is set out on page 34. The profit on ordinary activities after taxation for the year, amounted to £2,205,000 (2007: £1,338,000).

Following the publication of the Company's interim financial results, a 2.0p per Ordinary share interim dividend (2007: 1.5p) was paid on 16 November 2007 to Shareholders on the register on 26 October 2007.

The directors recommend the payment of a final dividend of 3.0p per Ordinary share (2007: 3.0p) which will be paid on 8 August 2008 to Shareholders on the register on 11 July 2008. A resolution to this effect will be proposed at the Annual General Meeting to be held on 6 August 2008.

The net asset value per Ordinary share at 31 March 2008 was 102.1p (2007: 101.3p). The transfer to and from reserves is given in The Statement of Changes in Shareholders' Equity on page 36.

Conversion of C Shares

On 9 May 2007 the Company converted its C shares of 50p each into new Ordinary shares of 10p each. The 1,258,676 C shares converted into 1,415,585 Ordinary shares on a net asset value basis and rank pari passu with other Ordinary shares. The conversion, in accordance with the Articles of Association of the Company, was made by reference to a conversion formula based on the relative net assets of the Company on 30 April 2007, being the Calculation Date.

Issue and Buy-Back of Shares

During the year the Company purchased, under existing authority granted by the Shareholders, Ordinary shares of 10p each in the market as disclosed in the table below. These shares are held in treasury.

	Number of shares bought-back	% of Issued Share Capital at that date	Consideration paid per share
28 Jun 07	300,000	1.14%	87.0p
08 Aug 07	67,968	0.26%	87.5p
28 Sep 07	80,477	0.30%	85.5p
30 Nov 07	40,000	0.15%	91.0p
14 Feb 08	135,000	0.51%	91.0p
20 Feb 08	50,000	0.19%	91.0p
31 Mar 08	79,357	0.30%	91.0p

During the year the Company issued 9,817,214 Ordinary shares under the offers for subscription for the tax years 2006/2007 and 2007/2008 that closed on 5 April 2007 and 30 April 2007 respectively, raising net proceeds of £9,178,000.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 51 of these financial statements.

In addition to the ordinary business of the meeting the Board is proposing the following items of special business. First, to increase the maximum aggregate remuneration payable to the directors. Under this proposal the limit on the aggregate amount payable to the directors is to be increased from £75,000 to £115,000 per annum allowing the payment to the Chairman to be increased to £35,000 per annum and to each of the 3 other continuing non-executive directors to £20,000 per annum, with an allowance for the possible appointment in the future of an additional non-executive director. The Board believes this to be in the interest of the Company so as to continue to be able to recruit directors of appropriate skills and experience and fairly reflecting the increasing responsibilities of directors. To implement this an amendment to the Company's Articles of Association is proposed as the first item of special business.

In addition it is the intention of the Board to re-introduce a dividend re-investment scheme with the objective of enabling shareholders to use their dividends to subscribe for further Ordinary shares in the Company without incurring dealing costs, issue costs or stamp duty.

There is a restriction on the total amount of Ordinary shares that can be issued in a rolling twelve month period without issuing a prospectus. Once this amount has been reached, it will not be possible to allot further Ordinary shares for the time being. However, the Board's intention is to recommend authority for five years to allocate up to 10 million Ordinary shares that can only be used to satisfy a dividend reinvestment scheme.

Details of the dividend reinvestment scheme will be issued to shareholders. Prior to this the Board seeks shareholders' authority to offer shareholders a dividend re-investment scheme and the necessary resolutions to issue and allot shares under a dividend re-investment scheme are set out in the Notice of the Annual General Meeting at page 51 as Ordinary Resolution (8) and Special Resolution (2) and (3).

Finally, the Board recommends the renewal of the existing share buy back authority which expires on 6 August 2008. Shares purchased under this authority may be placed in Treasury.

Substantial Shareholding

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

Trade Payables Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. Although the Company has no trade payables at the year end, the average number of payable days during the year was 31 (2007: 19).

Directors and their Interests

The directors of the Company at 31 March 2008, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 30 and 31.

Independent Auditors

The auditors, PKF (UK) LLP, have indicated their willingness to continue in office. A resolution to re-appoint them will be proposed at the Annual General Meeting.

VCT Status Monitoring

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

Events After the Balance Sheet Date

On 3 April 2008 YFM Group (Holdings) Limited, the ultimate parent company of YFM Private Equity Limited, the Company's Fund Manager, was sold to GLE Group which acquired its entire share capital. GLE operates a range of businesses, including property investment and development, business finance, business development and economic development consultancy.

It is not envisaged that there will be any change to either the members of the Company's investment team or to the operations of YFM Private Equity Limited that would have any material effect in respect of its relationship with British Smaller Companies VCT plc or its ability to operate the Company and manage its investment portfolio.

On 3 April 2008 the Company invested £0.44 million into London based Darwin Rhodes Group Limited, a fast growing global specialist in professional financial services and insurance recruitment. The investment was syndicated with the Chandos Fund LP, a fund for which YFM Private Equity Limited also acts as fund manager, as part of £1.7 million funding round.

On 2 May 2008 the Company invested £0.4 million into AIM listed K3 Business Technology Group plc. Based in Colne, Lancashire, the company installs and supports Microsoft based business planning and management software principally to retailers and manufacturers.

On 5 April 2008 the Company issued 5,041,746 Ordinary shares at a price of 106.25 pence per share. On 30 April 2008 the Company issued a further 337,493 Ordinary shares again at a price of 106.25 pence per share. In aggregate these two issues of shares raised £5.2 million net of expenses.

During April 2008 the Company has realised £0.16 million from the sale of part of its investment in Connaught plc. This represented a gain of £6k above the valuation at 31 March 2008 and a gain of £0.15 million on the original cost of the investment.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published at www.yfmgroup.co.uk, which is a website maintained by the Company's Fund Manager. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual report may differ from legislation in other jurisdictions.

The directors confirm that so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and that each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of Corporate Governance

The Board is committed to the principle and application of sound Corporate Governance and confirms that the Company has taken appropriate steps, relevant to its size and operational complexity, to comply with, The Combined Code on Corporate Governance, June 2006 (the "Combined Code").

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

Role of the Board

A management agreement between the Company and YFM Private Equity Limited sets out the matters over which the Fund Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration, and some marketing services. All other matters are reserved for 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 five times during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow directors to discharge their responsibilities.

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

Board Composition

The Board consists of five non-executive directors, all of whom are regarded by the Board as independent and all of whom are regarded as independent of the Company's Fund Manager, including the Chairman. Sir Andrew Hugh Smith, the Chairman since the Company's formation, will retire from the Company with effect from the conclusion of this year's AGM. Mr Stephen Noar retired from the Company with effect from 30 June 2008. It is the Board's intention that, subject to her election at the AGM, Ms Helen Sinclair be appointed as the Company's Chairman immediately upon Sir Andrew's retirement.

Ms Sinclair's independence was assessed on her appointment as a director in March 2008. Although the Combined Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in this Company, are satisfied that Ms Helen Sinclair fulfills the criteria for independence as non-executive director. The directors have a breadth of investment, business and financial skills and relevant experience to the Company's business and provide a balance of power and authority, including recent and relevant financial experience. Brief biographical details of each director are set out on page 20.

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

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

Tenure

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

The Board seeks to maintain a balance of skills and the directors are satisfied that as currently composed the balance of experience and skills of the individual directors is appropriate for the Company in particular with regard to investment appraisal and investment risk management. Individual biographies are at page 20 of this report.

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

The directors recommend the election of Ms Helen Sinclair and the re-election of Mr P Cammerman and Mr R Last, both of whom retire by virtue of service for more than 9 years. The Board recommends the election of Ms Sinclair in view of her commitment and experience and the re-election of Mr P Cammerman and Mr R Last at this year's AGM because of their commitment, experience and contribution to the Company.

Appointment of Chairman

Sir Andrew Hugh Smith is to retire as Chairman and non-executive Director of the Company from the date of the AGM on 6 August 2008. The Board would like to thank Sir Andrew for his considerable contribution throughout his time as Chairman and wish him well for the future. Helen Sinclair, who was appointed as a non-executive Director on 1 March 2008, will take over from Sir Andrew as Chairman with effect from 6 August 2008 subject to her election at the AGM.

Meetings and Committees

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

The table below details the number of Board, Audit and Nominations committee meetings attended by each director. During the year there were 6 formal Board meetings, 2 Audit Committee meetings and 1 Nominations Committee meeting. The directors met via telephone conference on 14 other occasions.

	Board meetings attended	Audit Committee meetings attended	Nominations Committee meetings attended
Director			
Sir A H Smith	6	2	1
H Sinclair (appointed 1 Mar 08)	1	–	–
R Last	6	2	1
P S Cammerman	6	n/a	n/a
S J Noar	4	2	–
R M Pettigrew	5	1	1

Training and Appraisal

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

The performance of the Board has been evaluated in respect of the current financial year. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively.

The factors taken into account were based on the relevant provisions of the Combined Code and included attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution.

Particular attention is paid to those directors who are due for reappointment. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

The Chairman has confirmed that the performance of the directors being proposed for election continues to be effective and that each of them continues to show commitment to the role.

Remuneration Committee

Due to the size of the Board and the remuneration procedures currently in place, in the directors' opinion, there is no role for an Independent Remuneration Committee. The Directors' Remuneration Report may be found on pages 30 and 31.

Audit Committee

During the financial year the Audit Committee has consisted of the directors who were independent of the Fund Manager, being Sir Andrew Hugh Smith, R Last, S Noar, R M Pettigrew and, from her appointment on 1 March 2008, Ms H Sinclair. Mr P Cammerman was appointed to the Audit Committee with effect from 3 April 2008. The committee meets at least once each year. The directors consider that it is appropriate that the Chairman of the Committee should be Ms H Sinclair following the retirement of Sir Andrew Hugh Smith. The members of the Committee consider that they have the requisite skills and experience to fulfill the responsibilities of the Committee.

The Audit Committee reviews the actions and judgments of management in relation to the interim and annual financial statements and the Company's compliance with the Combined Code. It reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems, receives information from the Fund Manager's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors.

Representatives of the Company's auditors attend the Committee meeting at which the draft Annual Report and financial statements are considered. The directors' statement on the Company's system of internal control is set out below.

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

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

Nominations Committee

The Company has a Nominations Committee which consists of the directors who are considered by the Board to be independent of the Fund Manager.

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.

Relations with Shareholders

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

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

The directors may be contacted through the Company Secretary whose details are shown on page 20.

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 20. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against for each resolution.

Internal Control

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

- A clearly defined investment strategy for YFM Private Equity Limited, the Fund Manager to the Company. All decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Fund Manager.
- Regular reviews of the Company's investments, liquid assets and liabilities, and revenue and expenditure.
- Regular reviews of compliance with the venture capital trust regulations to retain status.
- The Audit Committee reviews the internal control procedures adopted by the Fund Manager and the Board approves annual budgets prepared by the Fund Manager.
- 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 that procedures to implement the guidance, Internal Control: Guidance for Directors on the Combined Code ("the Turnbull Report"), were in place throughout the year ended 31 March 2008 and up to the date of this report.

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

The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than twice a year. There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Annual Report. The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review. The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the Turnbull Report.

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

Corporate Governance and Voting Policy

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

YFM Private Equity Limited is committed to introducing corporate governance standards into the companies in which 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 directors have carefully considered the going concern issue and are satisfied that the Company has sufficient cash resources to meet its obligations for the foreseeable future. Therefore, the directors believe that it is appropriate to continue to apply the going concern basis in preparing financial statements.

Investment Policy

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

The Company will invest in UK businesses across a range of sectors including Industrial, Healthcare, Software and Consumer Products in VCT qualifying and AIM traded. securities which, under the legislation governing VCTs, requires that at least 70% by value of its holdings must be in 'qualifying holdings'. The maximum by value that the Company may hold in a single investment is 15%. Although the majority of investments will be in equities, in appropriate circumstances, preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

The Company funds its investment programme out of its own resources and has no borrowing facilities for this purpose. The maximum that the Company may invest in any holding in any tax year is limited to £1 million and the average size of the Company's qualifying investment is £0.55 million. 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 report.

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

The Board reserves to itself the taking of all investment and divestment decisions save in the making of certain investments up to £250,000 in companies whose shares are to be traded on AIM and where the decision is required urgently, in which case the Chairman may act in consultation with the Fund Manager.

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

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

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

Financial Instruments

Further information on financial instruments is provided in Note 18 to the financial statements.

Financial Assets

Investments made in suitable qualifying holdings predominantly comprise ordinary shares with, in some instances, either fixed rate coupon preference shares, cumulative unsecured loan stocks or debenture loans. Each investment is valued in accordance with the policy set out on page 19 of this report. Investments in fixed interest Government securities are valued at their market value as at the balance sheet date.

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

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

The Board has set aside an amount of up to 20% of funds available for investment to be invested in AIM quoted companies that meet the Company's investment criteria.

Where appropriate, the Board will invest relatively small amounts in new share issues of AIM quoted companies for small minority holdings. Due to the existence of a quoted share price, opportunities to realise these investments will occur on a more frequent basis than for unquoted investments. When making investments in AIM quoted companies it is the Board's intention to hold that investment for the medium-term to achieve capital growth for the shareholders. However, the Board regularly reviews these investments so that opportunities for realisation can be acted upon at the most appropriate time.

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

Details of financial assets held at 31 March 2008 can be found in the Fund Manager's Review and notes 7 and 18 to these Financial Statements.

This report was approved by the Board on 3 July 2008 and signed on its behalf by

Philip Cammerman
Director

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

Directors and their Interests

The directors of the Company at 31 March 2008 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 2008	Number of Ordinary shares at 31 March 2007	Number of C shares at 31 March 2007
Sir A H Smith	**51,490**	40,243	10,000
H Sinclair (appointed 1 March 2008)	**–**	–	–
P S Cammerman	**30,916**	25,293	5,000
R Last	**21,490**	10,243	10,000
S J Noar	**–**	–	–
R M Pettigrew	**28,159**	17,500	5,075

During the year all C shares were converted to Ordinary shares. In addition, RM Pettigrew subscribed for 4,951 Ordinary shares. No directors held any option to acquire additional shares at any time during either year. Following the year end, on 4 April 2008, Mr P Cammerman subscribed for 4,964 Ordinary shares, Mr R Last subscribed for 9,646 Ordinary shares and Ms H Sinclair subscribed for 7,270 Ordinary shares under the 2007/08 share offer.

Brief biographical notes on the directors are given on page 20. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below, and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves.

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

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. Mr Cammerman was a director of YFM Private Equity Limited, until 3 April 2008, and until that date had a beneficial shareholding interest in its ultimate parent company YFM Group (Holdings) Limited.

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

As outlined in the Chairman's Statement the Board is reviewing this incentive scheme and intends to circulate any revised proposals to shareholders later in the year.

Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £46,250 (2007: £45,000) all of which was paid to five (2007: four) individuals for services as directors and none of which was paid to third parties in respect of directors' services.

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

	2008 £	2007 £
Sir A H Smith	**15,000**	15,000
H Sinclair (appointed 1 March 2008)	**1,250**	–
P S Cammerman	**–**	–
R Last	**10,000**	10,000
S J Noar	**10,000**	10,000
R M Pettigrew	**10,000**	10,000

There are no executive directors (2007: none). Mr Cammerman, who until 3 April 2008 was a director of the Company's Fund Manager, receives no fees for his services as director of the Company. None of Mr Cammerman's remuneration from YFM Private Equity Limited is considered to relate to his role with the Company.

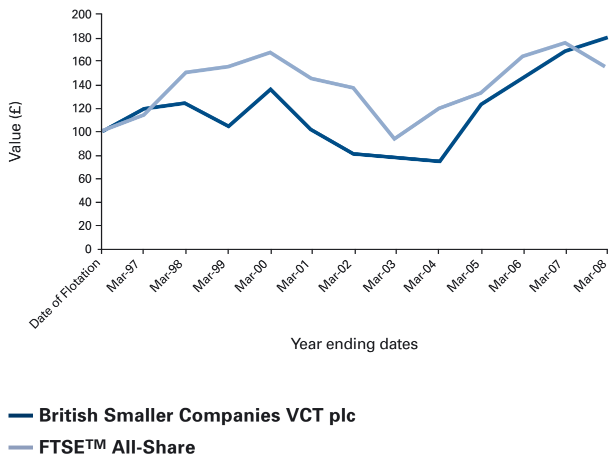
It is the Company's policy not to provide any performance emoluments, benefits in kind, any other emoluments or pension contributions to any director. No directors are, or have previously been, entitled to shares under any share option or long-term incentive schemes.

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

The Board is proposing that the remuneration payable to the directors be increased, as detailed at page 23. If approved by shareholders, the remuneration payable to the Chairman will be £35,000 per annum and to each of the other directors will be £20,000 per annum.

Performance Graph

The graph below shows a comparison between the Company's total shareholder return compared with the companies in the FTSE™ All-Share Index from the date of flotation to 31 March 2008. The return from the Company is based on a shareholder receiving basic tax relief on his or her investment at the initial outset of the Company but ignores any capital gains rollover relief and assumes all dividends are re-invested. The total return is calculated by reference to the Net Asset Value at the year end date plus cumulative dividends paid to that date. The graph looks at the value, by the end of March 2008, of £100 invested in the Company's shares with the value of £100 invested in the FTSE™ All-Share Index. The directors consider this to be the most appropriate published index on which to report on comparative performance given the focus of your Company's investments are invariably in relatively early stage unquoted companies.



This report was approved by the Board on 3 July 2008 and signed on its behalf by

Sir Andrew Hugh Smith
Chairman

To the Members of British Smaller Companies VCT plc

We have audited the financial statements of British Smaller Companies VCT plc for the year ended 31 March 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Changes In Shareholders' Equity, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information in the Directors' Report includes that specific information presented in the Chairman's Statement and Fund Manager's Review that is cross referenced from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Fund Manager's Review, the Directors' Report including the Business Review and Corporate Governance Statement, and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 March 2008 and of its profit for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PKF (UK) LLP
Registered Auditors
London
3 July 2008

Income Statement

For the year ended 31 March 2008

	Notes	2008 £000	2007 £000
Income	2	**1,035**	368
Administrative expenses:	3		
Fund management fee		**(610)**	(381)
Other expenses		**(195)**	(234)
		(805)	(615)
Operating profit (loss)		**230**	(247)
Gains on realisation of investments	7	**2,318**	503
Unrealised (losses) gains on investments held at fair value	7	**(343)**	1,082
Profit on ordinary activities before taxation		**2,205**	1,338
Taxation	4	**–**	–
Profit for the year from continuing operations		**2,205**	1,338
Basic and diluted earnings per Ordinary share	6	**8.51p**	7.82p
Basic and diluted earnings per C share	6	***n/a**	8.98p

The accompanying notes on pages 38 to 50 are an integral part of these financial statements.

*On 9 May 2007 the Company converted its C shares of 50p each into new Ordinary shares of 10p each. The 1,258,676 C shares converted into 1,415,585 Ordinary shares and rank *pari passu* with other Ordinary shares.

Balance Sheet

At 31 March 2008

	Notes	2008 £000	2007 £000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	7	**12,947**	11,627
Current assets			
Trade and other receivables	8	**1,114**	512
Cash and cash equivalents	9	**12,356**	4,867
		13,470	5,379
Liabilities			
Current liabilities			
Trade and other payables	10	**(219)**	(218)
Net current assets		**13,251**	5,161
Net assets		**26,198**	16,788
Shareholders' equity			
Share capital	11	**2,642**	2,148
Share premium account		**10,502**	1,813
Capital redemption reserve		**221**	221
Treasury share reserve		**(666)**	–
Special reserve		**2,408**	2,408
Retained earnings		**11,091**	10,198
Total shareholders' equity		**26,198**	16,788
Net asset value per Ordinary share	12	**102.1p**	101.3p
Net asset value per C share	12	***n/a**	110.8p

The accompanying notes on pages 38 to 50 are an integral part of these financial statements.

*On 9 May 2007 the Company converted its C shares of 50p each into new Ordinary shares of 10p each. The 1,258,676 C shares converted into 1,415,585 Ordinary shares and rank *pari passu* with other Ordinary shares.

The financial statements were approved by the Board of Directors on 3 July 2008 and were signed on its behalf by:

Sir Andrew Hugh Smith
Chairman

Statement of Changes in Shareholders' Equity

Total Shares

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury share reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2006	**2,195**	**1,336**	**117**	**–**	**3,330**	**9,569**	**16,547**
Profit for the year	–	–	–	–	–	1,338	1,338
Dividends	–	–	–	–	–	(709)	(709)
Purchase and cancellation of own shares	(104)	–	104	–	(922)	–	(922)
Issue of Ordinary share capital	57	517	–	–	–	–	574
Issue costs of Ordinary shares	–	(40)	–	–	–	–	(40)
Balance at 31 March 2007	**2,148**	**1,813**	**221**	**–**	**2,408**	**10,198**	**16,788**
Profit for the year	–	–	–	–	–	2,205	2,205
Dividends	–	–	–	–	–	(1,312)	(1,312)
Purchase of own shares	–	–	–	(666)	–	–	(666)
Issue of Ordinary share capital	981	8,722	–	–	–	–	9,703
Issue costs of Ordinary shares	–	(525)	–	–	–	–	(525)
C share conversion	(487)	492	–	–	–	–	5
Balance at 31 March 2008	**2,642**	**10,502**	**221**	**(666)**	**2,408**	**11,091**	**26,198**

The accompanying notes on pages 38 to 50 are an integral part of these financial statements.

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

Included within retained earnings, in respect of unrealised gains on investments held at fair value through profit or loss is £5,471,000 (2007: £6,803,000). These gains are not distributable under the Companies Act 1985 and provisions of the Companies Act 2006.

Cash Flow Statement

For the year ended 31 March 2008

	Notes	2008 £000	2007 £000
Net cash outflow from operating activities	13	**(26)**	(267)
Cash flows from (used in) investing activities			
Purchase of financial assets at fair value through profit or loss		**(4,770)**	(1,380)
Proceeds from sale of financial assets at fair value throught profit or loss		**4,878**	2,198
Net cash from investing activities		**108**	818
Cash flows from (used in) financing activities			
Costs of C share issue		**–**	(3)
Issue of Ordinary shares		**9,784**	574
Cost of Ordinary share issue		**(579)**	(80)
Purchase of own Ordinary shares		**(721)**	(796)
Dividends paid		**(1,312)**	(709)
Net cash from (used in) financing activities		**7,172**	(1,014)
Net increase (decrease) in cash and cash equivalents		**7,254**	(463)
Cash and cash equivalents at the beginning of the year		**4,867**	5,395
Effect of market value changes in cash equivalents		**235**	(65)
Cash and cash equivalents at the end of the year	9,14	**12,356**	4,867

The accompanying notes on pages 38 to 50 are an integral part of these financial statements.

For the year ended 31 March 2008

1. Principal Accounting Policies

Basis of Preparation

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

The financial statements are prepared in accordance with IFRS and interpretations in force at the reporting date. The Company has adopted IFRS 7 'Financial Instruments: Disclosures' and the amendments to IAS 1 'Presentation of Financial Statements' which are mandatory for this financial year. This has resulted in additional disclosures but no impact on reported profit or net assets.

The IASB has issued a revised version of IAS 1 'Presentation of Financial Statements'. The changes made require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revised standard will come into effect for annual periods beginning on or after 1 January 2009 and has therefore not been adopted in these financial statements.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted in these financial statements. These include amendments to IFRS 2, IFRS 3, IFRS 8, IAS 23, IAS 27 and IAS 32 and the issue of IFRICs 12 to 14. These changes are not expected to have a material impact on the financial statements.

Investments Held at Fair Value Through Profit or Loss

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

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

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

Quoted investments are valued at market bid prices.

Unquoted investments are valued in accordance with IAS 39 'Financial Instruments: Recognition and measurement' and where appropriate the International Private Equity and Venture Capital Valuation Guidelines issued in October 2006. A detailed explanation of the valuation policies of the Company is included on page 19.

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. Accordingly, and as permitted by IAS 28 'Investments in associates' and IAS 31 'Financial reporting of interest in joint ventures', their value to the Company lies in their marketable value as part of that portfolio. It is not considered that any of the holdings represent investments in associated undertakings.

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

Income

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

1. Principal Accounting Policies (continued)

Expenses

Expenses are accounted for on an accruals basis.

Cash and Cash Equivalents

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

Taxation

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

Deferred tax is recognised on all temporary differences that have originated, but not reversed, by the balance sheet date.

Deferred tax assets are only recognised to the extent that they are regarded as recoverable. Deferred tax is calculated at the tax rates that are expected to apply when the asset is realised.

Dividends Payable

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

Segmental Reporting

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

Geographical segments are considered to be the secondary reporting segment. An analysis of investments and the remaining assets and liabilities of the Company by geographical segment has not been given, as the results are not considered to be significant.

Critical Accounting Estimates and Judgements

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

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

2. Income

	2008 £000	2007 £000
Income from investments:		
Dividends from unquoted companies	**53**	76
Dividends from AIM quoted companies	**51**	36
	104	112
Interest on loans to unquoted companies	**216**	37
Fixed interest Government securities	**643**	179
Income from investments held at fair value through profit or loss	**963**	328
Other income	**11**	–
Interest on deposits	**61**	40
	1,035	368

3. Administrative Expenses

	2008 £000	2007 £000
Fund management fee (including irrecoverable VAT):	**610**	381
Other expenses:		
Administration fee (including irrecoverable VAT)	**57**	52
Directors' remuneration	**46**	45
Auditors' remuneration:		
audit fees	**12**	12
services relating to corporate finance transactions	**7**	–
General expenses	**73**	125
	195	234
	805	615

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

The key features of the agreement are:

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2% of gross assets less current liabilities, calculated at half-yearly intervals as at 31 March and 30 September.
- 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.

The total remuneration payable to YFM Private Equity Limited in the year (including VAT) was £667,000 (2007: £433,000).

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 30 under the heading "Basic Remuneration".

Under the Subscription Rights Agreement dated 28 February 1996 (assigned as described on page 30), The YFM Private Equity Limited Trust has a performance-related incentive, structured so as to entitle it to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to shareholders. However, such incentive will only apply in the event that the return to shareholders (after taking account of the effect of the incentive) is at least equal to the movement in the FTSE™ Actuaries All-Share Index over the relevant period, calculated on a total return basis. No entitlement has accrued to YFM Private Equity Limited in either year under this incentive agreement.

The Board is proposing to recommend that shareholders replace the existing incentive scheme. Details of the proposed new arrangement will be issued to shareholders for approval during the coming year.

4. Tax on Profit on Ordinary Activities

	2008 £000	2007 £000
Corporation tax payable at 20% (2007: 19%)	**–**	–
Profit on ordinary activities before taxation	**2,205**	1,338
Profit on ordinary activities multiplied by standard small company rate of corporation tax in UK of 20% (2007: 19%)	**441**	254
Effect of:		
UK dividends received	**(21)**	(21)
Non taxable profits on investment gains	**(395)**	(301)
Excess management expenses	**(25)**	68
Tax on profit on ordinary activities	**–**	–

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

Deferred tax assets of £358,000 calculated at 22% (2007: £388,000 calculated at 22%) in respect of unrelieved management expenses have not been recognised, as management do not currently believe that it is probable that sufficient taxable profits will be available against which the assets can be recovered.

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

5. Dividends

Amounts recognised as distributions to equity holders in the year.

	2008 £000	2007 £000
Interim dividend for the year ended 31 March 2008 – 2.0p per Ordinary share; paid 16 November 2007 (2007: 1.5p per Ordinary shares)	**520**	234
Final dividend for the year ended 31 March 2007 – 3.0p per Ordinary share; paid 8 August 2007 (2007: 3.0p per Ordinary share and 0.5p per C share)	**792**	475
	1,312	709

The interim dividend of 2.0p per share was declared on 17 October 2007 and paid on 16 November 2007 to shareholders on the register on 26 October 2007.

A final dividend of 3.0p per share in respect of the year to 31 March 2008, amounting to £932,000, is proposed. This has not been recognised in the year ended 31 March 2008 as the obligation did not exist at the balance sheet date.

6. Earnings per Share

The earnings per Ordinary share is based on net profit from ordinary activities after tax of £2,205,000 (2007: £1,225,000) and 25,915,000 (2007: 15,664,000) shares, being the weighted average number of Ordinary shares in issue during the year.

During the year the Company issued 9,817,214 Ordinary shares and the 1,258,676 C shares were converted into 1,415,585 Ordinary shares. Consequently earnings per C share for the year to 31 March 2008 are not applicable. Earnings per C share for the year to 31 March 2007 is based on net profit from ordinary activities after tax of £113,000 and 1,259,000 shares, being the weighted average number of C shares in issue during the year.

The Company also repurchased 752,802 of its own shares, these shares are held in treasury. The 752,802 treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 March 2008 (31 March 2007: nil). The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted earnings per share are the same.

Since the year end the Company has issued 5,379,239 Ordinary shares. Had this transaction occurred before the year end, it would have significantly affected the number of shares used in the earnings per share calculation.

7. Investments at Fair Value Through Profit or Loss

All items held as fair value through profit or loss were designated as such upon initial recognition. Movements in investment at fair value through profit or loss during the year to 31 March 2008 are summarised as follows:

	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	3,854	863	2,773	**7,490**	4,414	**11,904**
Opening unrealised gain (loss)	915	–	3,222	**4,137**	(69)	**4,068**
Opening valuation	**4,769**	**863**	**5,995**	**11,627**	**4,345**	**15,972**
Additions at cost	434	2,994	1,342	**4,770**	15,121	**19,891**
Disposal proceeds	(1,227)	(196)	(3,767)	**(5,190)**	(8,075)	**(13,265)**
Net profit (loss) realised on disposal	840	–	1,462	**2,302**	16	**2,318**
Changes in fair value in the year	(92)	–	(470)	**(562)**	219	**(343)**
	4,724	**3,661**	**4,562**	**12,947**	**11,626**	**24,573**
Closing cost	4,139	3,661	3,037	**10,837**	11,436	**22,273**
Closing unrealised gain	585	–	1,525	**2,110**	190	**2,300**
Closing valuation	**4,724**	**3,661**	**4,562**	**12,947**	**11,626**	**24,573**

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

	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	4,233	473	2,808	**7,514**	4,067	**11,581**
Opening unrealised gain (loss)	1,568	–	1,727	**3,295**	(8)	**3,287**
Opening valuation	**5,801**	**473**	**4,535**	**10,809**	**4,059**	**14,868**
Additions at cost	341	674	365	**1,380**	2,541	**3,921**
Disposal proceeds	(1,662)	(284)	(266)	**(2,212)**	(2,190)	**(4,402)**
Net profit (loss) realised on disposal	663	–	(160)	**503**	–	**503**
Changes in fair value in the year	(374)	–	1,521	**1,147**	(65)	**1,082**
	4,769	**863**	**5,995**	**11,627**	**4,345**	**15,972**
Closing cost	3,854	863	2,773	**7,490**	4,414	**11,904**
Closing unrealised gain (loss)	915	–	3,222	**4,137**	(69)	**4,068**
Closing valuation	**4,769**	**863**	**5,995**	**11,627**	**4,345**	**15,972**

The total of fair value adjustments below cost made against unquoted investments at 31 March 2008 amounted to £471,000 (2007: £717,000). This includes no amounts written off such investments in 2008 or 2007.

There have been no individual write-downs or provisions during the year, which exceeded 5% of the total assets of the Company (2007: none).

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

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

Significant Interests

At 31 March 2008 the Company held a significant holding of at least 20% of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No. of shares	Class of shares held	Percentage of class held by the Company	Percentage of class held by other commonly managed funds
Cater Plus Limited	Healthcare	100,000	Ordinary	26.7%	6.6%
Ellfin Homecare Limited	Healthcare	41,384	Ordinary	10.3%	37.3%
Fishawack Limited	Healthcare communications	22,667	Ordinary	5.5%	22.5%
Freshroast Coffee Co Limited	Manufacturing	5,271	Ordinary	13.0%	12.9%
GO Outdoors Limited	Consumer Products	36,016	Ordinary	21.8%	–
Harvey Jones Limited	Manufacture/Distribution	77,715	Ordinary	6.9%	23.1%
Harris Hill Limited	Recruitment	37,143	A Ordinary	9.3%	23.2%
Images at Work Limited	Consumer Products	75,000	Ordinary	33.3%	–
Primal Pictures Limited	Medical Information	79,680	Ordinary	3.8%	16.6%
RMS Limited	Stevedoring/Logistics	180,000	Ordinary	8.8%	25.5%
Sheet Piling UK Limited	Construction	32,659	Ordinary	36.0%	–

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.

YFM Private Equity Limited, the Company's Fund Manager, also acts as fund manager or discretionary fund manager to certain other funds under its management that have also invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised below. The amounts shown below are the net cost of investments as at 31 March 2008 and exclude those companies which are in receivership or liquidation.

	British Smaller Technology Companies VCT 2 plc £000	North West Business Investment Scheme £000	The Yorkshire Fund LP £000	Yorkshire Enterprise Finance Limited £000	Baring English Growth Fund (North) LP £000	The Chandos Fund LP £000	Total £000	Total for this Company £000
Brulines plc	81						81	163
Cambridge Cognition Limited	240						240	325
Cater Plus Limited	250						250	1,000
Ellfin Homecare Limited	250	700				1,400	2,350	650
Fishawack Limited						2,050	2,050	500
Freshroast Coffee Co Limited			5				5	5
Hargreaves Services plc					238		238	469
Harris Hill Limited						1,500	1,500	600
Harvey Jones Limited	389					2,234	2,623	777
Patsystems plc	317				176		493	222
Pressure Technologies plc	300						300	425
Primal Pictures Limited	961			55			1,016	500
RMS Limited	350					1,250	1,600	900

8. Trade and Other Receivables

	2008 £000	2007 £000
Amounts receivable within one year:		
Prepayments and accrued income	**454**	166
Other debtors	**660**	346
	1,114	512

There was no allowance for credit losses on trade receivables in either year.

Trade receivables are assessed for impairment when older than 90 days. As of 31 March 2008 there were no trade receivables older than 90 days (2007: £nil).

As of 31 March 2008, trade receivables of £nil (2007: £nil) were impaired and provided for. 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 £942,000. The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2008 £000	2007 £000
Cash at bank	**730**	522
Cash equivalents – fixed interest quoted investments	**11,626**	4,345
	12,356	4,867

10. Trade and Other Payables

	2008 £000	2007 £000
Amounts payable within one year:		
Accrued expenses	**62**	79
Other creditors	**157**	139
	219	218

11. Called-up Share Capital

	2008		2007	
	Authorised £000	**Allotted, Called-up and Fully paid £000**	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10p				
Authorised: 165,000,000 (2007: 40,000,000)	**16,500**		4,000	
Issued: 26,424,163 (2007: 15,191,364)		**2,642**		1,519
C shares of 50p each				
Authorised: nil (2007: 25,000,000)	**–**		12,500	
Issued: nil (2007: 1,258,676)		**–**		629
Total				
Authorised:	**16,500**		16,500	
Issued:		**2,642**		2,148

11. Called-up Share Capital (continued)

The movement in the year was as follows:

		Ordinary Shares		C Shares	
	Date	Number of shares	Share Capital £000	Number of shares	Share Capital £000
Total as at 1 April 2007		15,191,364	1,519	1,258,676	629
Issues of shares	05 Apr 07	9,333,427	933	–	–
Issues of shares	30 Apr 07	468,813	47	–	–
Conversion of C shares	09 May 07	1,415,585	142	(1,258,676)	(629)
Issue of shares	01 Aug 07	14,974	1	–	–
Total as at 31 March 2008		**26,424,163**	**2,642**	**–**	**–**

Full details of the share purchases are set out in the Directors' Report under the heading 'Issue and Buyback of Shares'.

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

During the year the Company purchased 752,802 of its own shares at an arithmetical average price of 89 pence per share. These shares are held in treasury.

12. Net Asset Value per Share

The net asset value per Ordinary share is calculated on attributable assets of £26,198,000 (2007: £15,394,000) and 25,671,361 (2007: 15,191,364) Ordinary shares in issue at the year end.

During the year the Company issued 9,817,214 Ordinary shares and the 1,258,676 C shares were converted into 1,415,585 Ordinary shares. Consequently net asset value per C share for the year to 31 March 2008 is not applicable. Net asset value per C share for the year to 31 March 2007 is based on attributable assets of £1,394,000 and 1,258,676 C shares in issue at the year end.

The Company also repurchased 752,802 of its own shares, these shares are held in treasury. The 752,802 treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 March 2008 (31 March 2007: nil). The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted net asset values per share are the same.

Since the year end the Company has issued 5,379,239 Ordinary shares. Had this transaction occurred before the year end, it would have significantly affected the number of shares used in the net asset value per share calculation.

13. Reconciliation of Profit on Ordinary Activities before Taxation to Net Cash Outflow from Operating Activities

	2008 £000	2007 £000
Profit on ordinary activities before tax	**2,205**	1,338
Increase in prepayments and accrued income	**(230)**	(40)
(Decrease) Increase in accruals	**(26)**	20
Profit on realisation of investments in the year	**(2,318)**	(503)
Revaluation of investments in the year	**343**	(1,082)
Net cash outflow from Operating Activities	**(26)**	(267)

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

Cash movements above include the following:	**2008** **£000**	2007 £000
Dividends received	**104**	112
Interest received		
– gilt interest	**641**	180
– deposit interest	**61**	40
Total interest	**702**	220

14. Analysis of Changes in Cash and Cash Equivalents

	31 March 2007 £000	Cash flow £000	Other non cash changes £000	**31 March 2008 £000**
Cash	522	208	–	**730**
Cash equivalents – fixed interest quoted investments	4,345	7,046	235	**11,626**
	4,867	7,254	235	**12,356**

15. Financial Commitments

There was one investment approved by the Board of Directors at 31 March 2008 that has not been reflected in these accounts (2007: none). This related to an investment in Darwin Rhodes Group Limited which was approved by the Board on 22 February 2008 and completed on 3 April 2008.

Further information can be found in the Directors' Report under the heading 'Events after the balance sheet date' on page 24.

16. Related Party Transactions

Until 3 April 2008 Mr Cammerman was executive Chairman of YFM Private Equity Limited, the Fund Manager to the Company, and a wholly owned subsidiary of YFM Group Limited which held 2.0% of the issued share capital of British Smaller Companies VCT plc at 31 March 2008 (2007: 3.5%). Mr Cammerman was also director of YFM (Group) Holdings Limited, the ultimate parent company of YFM Private Equity Limited, in which he had a beneficial shareholding until 3 April 2008. On 14 April 2008 Mr Cammerman was appointed as a non-executive director of Pressure Technologies plc.

Mr Noar was a non-executive director of Cozart plc until 4 October 2007. The appointment was made pursuant to an agreement following the investment made in that company. During the year he received remuneration of £17,000 (2007: £31,042) from Cozart plc in respect of his services. At 31 March 2008 Mr Noar no longer held an equity stake in Cozart plc (2007: 0.4%).

Mr Last is a non-executive director of Patsystems plc, having been appointed to the post in 2002. During the year Mr Last received £30,000 (2007: £27,500) from Patsystems plc in respect of his services. Mr Last holds a 0.5% equity stake in Patsystems plc.

17. Events after the Balance Sheet Date

Details of events after the balance sheet date are set out in the Directors' Report under the heading 'Events after the balance sheet date' on page 24.

18. 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 19. It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value due to their short term maturity. Therefore, the directors consider all assets to be carried at a valuation which equates to fair value.

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

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

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

Assets as per balance sheet	**2008**		2007	
	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
Cash and cash equivalents	**730**	**11,626**	522	4,345
Trade and other receivables	**942**	**–**	501	–
Investments at fair value through profit or loss	**–**	**12,947**	–	11,627
Total financial instruments	**1,672**	**24,573**	1,023	15,972
Other assets – not financial instruments	**172**	**–**	11	–
	1,844	**24,573**	1,034	15,972

Liabilities as per balance sheet	**2008**	2007
	Other financial liabilities £000	Other financial liabilities £000
Trade and other payables	**219**	218
	219	218

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 IAS39, either in current or prior periods.

At 31 March 2008 and 31 March 2007, the financial assets, by value, comprised:

	2008		2007	
	£000	**%**	£000	%
Venture capital investments				
Ordinary shares	**8,727**	**33.3%**	10,232	60.9%
Loan stock	**3,661**	**14.0%**	863	5.2%
Preferred Ordinary shares	**559**	**2.1%**	532	3.2%
	12,947	**49.4%**	11,627	69.3%
Fixed interest Government Securities	**11,626**	**44.4%**	4,345	25.9%
Cash	**730**	**2.8%**	522	3.1%
Other financial assets	**1,114**	**4.2%**	512	3.0%
Other financial liabilities	**(219)**	**(0.8)%**	(218)	(1.3)%
	26,198	**100.0%**	16,788	100.0%

18. 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.

18a Market 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 realised. Returns are therefore maximised when investments are bought or sold at appropriate times in the economic cycle.

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

The Company has no significant exposure to exchange rate risk.

Equity Price Risk

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. In addition, the ability of the Company to purchase or sell investments is also constrained by requirements set down for venture capital trusts.

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

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

49% of the Company's equity investments are traded on AIM. A 5% increase in stock prices as at 31 March 2008 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £228,000 (2007: £300,000). 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.

51% of the Company's equity investments are in unquoted companies held at fair value. The valuation methodology for these investments includes the application externally produced indices, normally the Private Company Price Index. This is based on the Price/Earnings ratios of private companies that have recently been sold. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed exchanges which may be factored into the sale prices of other businesses. A 5% increase in the valuations of unquoted investments at 31 March 2008 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £236,000 (2007: £238,000). 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.

The largest single concentration of equity price risk relates to the Company's investment in GO Outdoors Ltd which constitutes 6.0% (2007: 11.4%) 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 suffering full impairment, is 2.0% (2007: 3.3%) of the value of net assets.

18. Financial Instruments (continued)

Interest rate Risk

The Company's venture capital investments include £3,661,000 of loan stock in unquoted companies. This loan stock is at fixed rates to guard against fluctuations in interest rates. Interest rate risk on this loan stock is considered and monitored alongside overall credit quality and market price risk for the related equity investments. The Company has some exposure to interest rates as a result of interest earned on bank deposits. The Company's exposure to interest rate risk is judged to be immaterial.

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

	2008		2007	
	Weighted average interest rate	**Weighted average time for which rate is fixed Months**	Weighted average interest rate	Weighted average time for which rate is fixed Months
Loan Stock	**11.22%**	**53**	7.90%	62
Government Gilts	**5.19%**	**47**	4.59%	48
Combined	**6.72%**	**48**	5.4%	51

18b Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Fund Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date.

The fair value of the loans and receivables is not regarded as having changed due to changes in credit risk in either year. Credit risk on unquoted loan stock held within unlisted investments is mitigated by careful monitoring of investment companies.

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

	2008 £000			2007 £000		
	<1 Year	**1-2 Years**	**2-5 Years**	<1 Year	1-2 Years	2-5 Years
Unquoted Loan Investments	**585**	**450**	**2,626**	–	–	863

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 Landsbanki, the Company's broker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the custodian to be delayed or limited.

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock. The Company does not invest in floating rate instruments.

Substantially all of the cash held by the Company is held by a single bank. Bankruptcy or insolvency of this bank may cause the Company's rights with respect to the cash held by the bank to be delayed or limited. The Company banks with a large reputable bank. Should the credit quality or the financial position of the bank deteriorate significantly the Fund Manager will move the cash holdings to another bank.

18c Liquidity Risk

The Company invests in financial assets to comply with the venture capital trust legislation and provide capital growth for Shareholders that can eventually be distributed by way of dividends. Unquoted venture capital investments normally take a number of years to mature and are, by their nature, illiquid. Therefore, realised capital gains on these investments are a medium-to-long term aim. As a result, the Company may not be able to liquidate quickly some of its investments in these instruments at an amount close to their fair value in order to meet its liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

18. Financial Instruments (continued)

The Company also needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company invests its surplus funds in highly liquid government gilts. 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 are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Consequently, trading in these stocks is determined by the demand for venture capital funds.

Due to the structure of certain investments, loan stock repayments may become due during the term of the investment. These are usually at fixed dates, although in some instances the investee Company has the option of repaying earlier.

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

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. 47% of the Company's assets are in the form of liquid cash or cash equivalents. There are no undrawn committed borrowing facilities at either year end.

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 19. Where investments are in quoted stocks, fair value is set at market price. Non-quoted investments are valued in line with IPEVC valuation guidelines. The primary methods used, and the key assumptions relating to them, are:

Price of recent investment – The cost of the investment is taken as a reasonable assessment of fair value for period of up to one year. During this period performance against budget is monitored for evidence of impairment. 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 – Market indices or comparators, normally the Private Company Price Index (PCPI), is used as a market-based indication of the potential earnings of an investment company. A discount is applied by the Fund Manager based on the perceived market interest in that company or sector and on any benefit that may be observed by holding a significant shareholding or superior rights.

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

19. 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
- 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 2008 was £26.2 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 capital management objectives or the capital structure of the business from the previous period. The Company is not subject to any externally imposed capital requirements.

No: 3134749

BRITISH SMALLER COMPANIES VCT PLC

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 23 Berkeley Square, London, W1J 6HE, on 6 August 2008 at 12.00 noon for the following purposes:

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

As Ordinary Business

ORDINARY RESOLUTIONS

(1) To receive the Annual Report and accounts for the year ended 31 March 2008.

(2) To declare a final dividend for the year to 31 March 2008 of 3.0p per Ordinary Share.

(3) To approve the Directors' Remuneration Report.

(4) To elect as a director Ms Helen Sinclair.

(5) To re-elect as a director Mr P Cammerman.

(6) To re-elect as a director Mr R Last.

(7) That PKF (UK) LLP be re-appointed as independent auditors to the Company and that the directors be authorised to fix their remuneration.

(8) That the directors be and are generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) in connection with any dividend reinvestment scheme, at such time and generally on such terms and conditions as the directors may determine during the period commencing on the passing of this Resolution and expiring on 6 August 2013, (unless previously renewed, varied or revoked by the Company in a general meeting) and the maximum nominal value of such relevant securities as aforesaid which may be allotted pursuant to such authority shall be £1 million being 7.5% of the authorised but unissued share capital of the Company at 31 May 2008 but so that the directors shall be entitled under the authority conferred or under the renewal hereof to make at any time prior to the expiry of such authority any offer or agreement which would or might require relevant securities as aforesaid to be allotted after the expiry of such authority and to allot relevant securities accordingly.

As Special Business

SPECIAL RESOLUTIONS

(1) That Article 106 of the Company's Articles of Association (limit on directors' aggregate remuneration) be amended by the deletion therefrom of the number "£75,000" and by the insertion of the number "£115,000"in substitution therefor.

(2) That the directors be and are hereby empowered during the period commencing on the passing of this resolution and expiring on 6 August 2013 (unless previously revoked, varied or extended by the Company in general meeting pursuant to Section 95 of the Act) to allot equity securities (as defined in Section 94(2) of the Act) for cash pursuant to the authority given in Ordinary Resolution (8) above, as if Section 89(1) of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with a dividend reinvestment scheme 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.

(3) That pursuant to Article 140 of the Company's Articles of Association, the Board is hereby authorised to offer holders of shares in the Company the right to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part to be determined by the Board) of all or any dividend declared in the period ending at the beginning of the annual general meeting in 2009 subject to the provisions of Articles 140.2 to 140.7 and on such other terms as may be approved by the Board.

(4) That in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of Ordinary shares of 10p in the capital of the Company provided that:

4.1 the maximum aggregate number of Ordinary shares authorised to be purchased is 3,968,982 being 14.99% of issued Ordinary Shares as at 3 July 2008;

4.2 the maximum price which may be paid for an Ordinary share is an amount equal to maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;

4.3 the minimum price which may be paid for an Ordinary share is its nominal value;

4.4 this authority shall take effect from 6 August 2008 and shall expire at the conclusion of the Company's next annual general meeting or on the expiry of 15 months following the passing of the resolution, whichever is the earlier; and

4.5 the Company may make a contract or contracts to purchase Ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

J E P Gervasio
Secretary
3 July 2008

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

Notes:

(1) A member of the Company entitled to attend and vote at the Meeting may appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

(2) A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars or you may photocopy this form. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

(3) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of appointment for holding the Meeting.

(4) In accordance with Regulation 41 of The Uncertified Securities Regulations 2001, only those members entered on the Company's register of members not later than 12.00 noon on 4 August 2008, or if the meeting is adjourned, Shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the Meeting.

(5) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting if he wishes to do so.

(6) Biographical details concerning the two directors retiring and offering themselves for re-election can be found at page 20 of the Annual Report together with those of the director to be elected.

(7) Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the Company's registrar, Capita Registrars, or to the Company directly. In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the 2006 Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this Notice of Meeting are hereby informed, in accordance with Section 149 (2) of the 2006 Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this Meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

British Smaller Companies VCT plc
Form of Proxy

To be used at the Annual General Meeting of the Company to be held at 23 Berkeley Square, London, W1J 6HE on 6 August 2008 at 12.00 noon

I/We .... being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Meeting or (see note a)

... of .... as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 6 August 2008 at 12.00 noon and at any adjournment thereof.

Number of Ordinary shares proxy is appointed over...

Please also tick here if you are appointing more than one proxy. ☐

My/our proxy is to vote as indicated below.

ORDINARY RESOLUTIONS	**FOR**	**AGAINST**	**WITHHELD**
1. To receive the Annual Report and Accounts	☐	☐	☐
2. To declare a final dividend	☐	☐	☐
3. To approve the Director's Remuneration Report	☐	☐	☐
4. To elect as a director Ms Helen Sinclair	☐	☐	☐
5. To re-elect as a director Mr P Cammerman	☐	☐	☐
6. To re-elect as a director Mr R Last	☐	☐	☐
7. To reappoint PKF (UK) LLP as auditors	☐	☐	☐
8. Authority to allot shares under a dividend reinvestment scheme	☐	☐	☐
SPECIAL RESOLUTIONS			
1. To amend Article 106 of the Company's Articles of Association be amended as proposed (maximum directors' remuneration)	☐	☐	☐
2. Waiver of pre-emption rights over shares issued under a dividend reinvestment scheme	☐	☐	☐
3. To authorise the directors to offer shares under a dividend reinvestment scheme	☐	☐	☐
4. To authorise the Company to make purchases of its own shares	☐	☐	☐

Signature... Dated 2008

NOTES

(a) If you wish to appoint a proxy or proxies other than the Chairman of the Meeting please insert that person's name and address and delete (initialling the deletion) "the Chairman of the Meeting or". A proxy need not be a Member of the Company. You may attend and vote at the Meeting instead of any proxy appointed by you if you so wish.

(b) You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrars or you may photocopy this form. Please indicate on the line below the proxy's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

(c) Please indicate by inserting "X" in the appropriate box the way in which your proxy is to vote. If you do not do so, your proxy may vote or abstain as he thinks fit. Your proxy will have the authority to vote at his discretion on any amendment or other motion proposed at the Meeting, including any motion to adjourn the Meeting. This proxy will only be used in the event of a poll being directed or demanded.

(d) This form of proxy must be signed by the appointor or his attorney duly authorised in writing or if the appointor is a corporation this proxy must be given under its Common Seal or be signed by an officer or attorney duly authorised in writing.

To be valid, this form of proxy duly completed and any power of attorney or other authority (if any) under which it is notarially certified, or office copy of such power or authority, must be deposited at the office of the Company's Registrars, Capita Registrars, Proxy Department, PO Box 25, Beckenham, Kent BR3 4BR not less than 48 hours before the time appointed for holding the above Meeting or (as the case may be) adjourned Meeting.

(e) The resolutions are set out in full in the Notice of Annual General Meeting.

(f) In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the 2006 Act. Persons nominated to receive information rights under section 146 of the Act who have been sent a copy of this Notice of Meeting are hereby informed, in accordance with Section 149 (2) of the 2006 Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

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CAPITA REGISTRARS
PROXY DEPARTMENT
PO BOX 25
BECKENHAM
KENT
BR3 4BR

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First fold

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Financial Summary

	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006	Year ended 31 March 2005	Year ended 31 March 2004
Ordinary Shares					
Income	**£1,035,000**	£327,000	£413,000	£396,000	£364,000
Profit (loss) on ordinary activities before and after tax	**£2,205,000**	£1,225,000	£2,180,000	£(45,000)	£(755,000)
Profit (loss) per Ordinary share	**8.51p**	7.82p	14.55p	(0.29)p	(4.88)p
Total recognised gain (loss) per Ordinary share	**–**	–	–	–	12.87p
Dividend per Ordinary share	**5.0p**	4.5p	3.7p	7.4p	–
Cumulative dividend paid and proposed	**40.0p**	35.0p	30.5p	26.8p	19.4p
Net assets attributed to Ordinary shares	**£26,198,000**	£15,394,000	£15,260,000	£13,090,000	£12,093,000
Net asset value per Ordinary share	**102.1p**	101.3p	97.5p	86.6p	78.3p
Total return per Ordinary share	**142.1p**	136.3p	128.0p	113.4p	97.7p
C Shares					
Income	**–**	£41,000	£38,000	–	–
Profit on ordinary activities before and after tax	**–**	£113,000	£103,000	–	–
Profit per C share	**–**	8.98p	8.38p	–	–
Dividend per C share	**–**	0.5p	–	–	–
Cumulative dividend paid and proposed	**–**	0.5p	–	–	–
Net assets attributed to C shares	**–**	£1,394,000	£1,287,000	£237,000	–
Net asset value per C share	**–**	110.8p	102.2p	95.0p	–
Total return per C share	**–**	111.3p	102.2p	95.0p	–

The accounts were prepared under UK Generally Accepted Accounting Practices in 2004 and were prepared under International Financial Reporting Standards in 2005, 2006, 2007 and 2008.

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
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4BR

Solicitors
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16-17 East Parade
Leeds LS1 2BR

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Fixed Interest Securities Adviser
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