

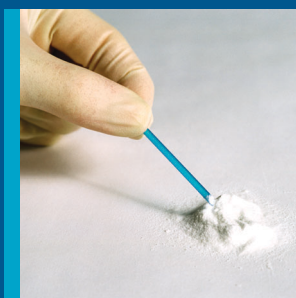
Annual Report  
for the year ended  
31 March 2006



BRITISH  
SMALLER  
COMPANIES  
VCT plc

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# British Smaller Companies VCT plc

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

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

## Financial Highlights

### Ordinary Shares

	2006	2005
Profit (loss) before taxation	<b>£2,180,000</b>	(£45,000)
Dividend per Ordinary share paid in the year	<b>3.7p</b>	7.4p
Total cumulative dividends paid per Ordinary share	<b>30.5p</b>	26.8p
Net asset value per Ordinary share	<b>97.5p</b>	86.6p
Total return per Ordinary share	<b>128.0p</b>	113.4p
Proposed final dividend per Ordinary share	<b>3.0p</b>	2.2p

### C Shares

	2006	2005
Profit before taxation	<b>£103,000</b>	-
Net asset value per C share	<b>102.2p</b>	95.0p
Total return per C share	<b>102.2p</b>	95.0p
Proposed final dividend per C share	<b>0.5p</b>	-

## Financial Calendar

• Results Announced	19 May 2006	• Ex-dividend Date	31 May 2006
• Record Date	2 June 2006	• Annual General Meeting	1 August 2006

# Chairman's Statement

For the third successive year, I am pleased to be able to report significant growth in the net asset value per share of your Company. For the year to 31 March 2006, the total return, which takes into account both this net asset value and cumulative dividend distributions, has increased by 12.9%; with the three year increase amounting to 51.1%. There has also been a pleasing increase in the net asset value of the C shares of 7.6%.

The continued growth has resulted from further significant realisations and sustained profitability from many of the portfolio companies, both unquoted and quoted. Your Company has strengthened cash reserves and your Board and its Investment Adviser, YFM Private Equity, are focused on increasing the investment rate to build on the returns achieved to date.

## Investment Portfolio

There were two major realisations in the year, being the unquoted investments in Harlands of Hull Limited and International Resources Group Limited.

Your Company's investment of £0.5 million in Harlands of Hull was realised for £1.59 million on the sale of the business to Clondalkin Group (UK) Limited. This successful exit was recognised by being short-listed for the European Venture Capital Deal of the Year award. It was encouraging for your Company to be associated with this prestigious award.

The realisation of International Resources Group was finalised in December 2005 when the conditional offer from PSD Group plc was approved by its shareholders and the combined business changed its name to OPD Group plc. Your Company received cash consideration of £1.39 million, which brought the total proceeds on this investment, including revenue income, to £2.62 million on an original cost of £609,000.

A total of £1.23 million was invested into four businesses in the year; £900,000 from the Ordinary share pool and £330,000 from the C share pool. Three of these investments were in

companies at the time of their successful admission to AIM, all of which have traded at a premium to their admission price. The other was in unquoted company Intuita Limited, an established business based in Manchester that provides integrated IT solutions to end-users in the construction industry. Subsequent to our investment and the acquisition of one of its competitors, the enlarged business changed its name to Tekton Group Limited. Further information about these new investments can be found in the Investment Adviser's Review. This contains a summary of all businesses in the current portfolio and a note of their website addresses to enable shareholders to get further information if they wish to do so.

## Financial Results and Dividend

With Reporting Standards committed to international convergence, we have considered the option of full adoption of International Financial Reporting Standards (IFRS) for this Company. In line with our policy of transparent and full reporting, the decision was reached to report the results to 31 March 2006 under IFRS. We feel that the results presented under IFRS provide the best picture of your Company's performance and its financial position at 31 March 2006, whilst ensuring your Company complies with best practice reporting. It is likely that IFRS will become the generally accepted regime for all publicly quoted companies in the next few years.

The net asset value of the Ordinary shares at 31 March 2006 was 97.5 pence per share, and 102.2 pence per share for the C shares. Taking account of the dividends paid to date on the Ordinary shares, the total return for eligible founder shareholders at the balance sheet date was 128 pence per share.

The Ordinary shares recorded a pre-tax profit of £2.18 million after taking account of unrealised valuation gains of £1.48 million. The C share pool also recorded pre-tax profits, delivering £0.1 million for its first full trading period.

*"The continued growth has resulted from further significant realisations and sustained profitability from many of the portfolio companies, both unquoted and quoted."*

*“The current investment portfolio has continued to mature, producing a healthy flow of investments progressing onto AIM and a number of profitable realisations through trade sales.”*

The results of the C share fundraising were reported in my Interim Statement. The early investments in the C share portfolio have performed well during the year. Once the initial target of 70% of funds raised has been invested, the C shares will be converted into Ordinary shares in line with the Prospectus dated 7 January 2005. In the meantime, the Ordinary shares and C shares are maintained, and accounted for, in separate pools with dividend distributions determined by the performance of each pool independent of the other.

An interim dividend of 1.5 pence per share was declared on the Ordinary shares and paid in January of this year. No interim dividend was paid on the C shares. Your Board is now proposing a final dividend of 3.0 pence per share on the Ordinary shares and 0.5 pence per share on the C shares. If approved, these dividends will be paid on 11 August 2006 to shareholders on the register at 2 June 2006. The final dividend has not been recognised in the accounts under IFRS as the contractual obligation did not exist at the balance sheet date.

In the budget in March, the Chancellor announced changes to a number of the rules affecting VCTs. It is unclear whether the Treasury had given any consideration to the effect of these changes on dividend reinvestment schemes, but the combination of certain changes make it impractical to continue your Company's scheme unless, and until, rules are published to deal with the problem. We have, therefore, suspended the Scheme pending further clarification. Consequently, the final dividends, if approved, will be paid in cash.

## Shareholders and Fundraising

Shareholders will be aware that, on 22 February 2006, your Board published proposals offering investors the opportunity to subscribe for up to 1.49 million new Ordinary shares in the Company at an offer price of 99.5 pence per share. This enabled eligible investors to participate in a maturing well-balanced portfolio of investments with the prospect of regular tax-free dividends, whilst obtaining income tax relief at 40% before the changes were made to VCT regulations in the 2006

budget. In recognition of their support for the Company, existing shareholders, both Ordinary and C shareholders, were given priority to apply for shares in the first three weeks of the Offer. I am pleased to report that the Offer closed fully subscribed.

The Company continues to operate a share buy back policy to enable shareholders to obtain some liquidity in an otherwise illiquid market where there is a need to dispose of their stock. This policy is kept under review to ensure that any decisions taken are in the best interests of shareholders as a whole. In accordance with this policy, the Company purchased for cancellation a total of 420,000 shares during the year, at an average price of 78.8 pence per share. The existing buy back authority expires on 6 July 2006 and a resolution to renew the authority will be proposed at the Company's AGM on 1 August 2006.

## Outlook

The current investment portfolio has continued to mature, producing a healthy flow of investments progressing onto AIM and a number of profitable realisations through trade sales.

The focus for your Board and YFM Private Equity is to actively support the growth businesses in the existing portfolio, seeking to maximise and realise value, and to continue to be selective in identifying the next generation of businesses for this portfolio to ensure that the growth evidenced to date can be continued in the future.

The changes relating to VCTs announced in the Budget, particularly the reduction of the gross asset test for a qualifying company, will have some impact on the industry but, with your Board and its Investment Adviser already focusing primarily on this market, the changes are not expected to have any material impact on your Company.



Sir Andrew Hugh Smith  
30 June 2006

# Investment Adviser's Review

## Investment Portfolio

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

## Unquoted Companies



### GOoutdoors Limited

Cost	£155,000
Valuation	£1,677,000
Dates of investment	May 1998 and March 2002
Equity held	22.96%
Valuation basis	Earnings multiple
Location	Sheffield

For the period ended 30 January 2005 audited pre-tax profits were £0.46m on turnover of £11.15m (2004: £0.95m and £9.02m respectively).

At 30 January 2005 net assets were £4.61m (2004: £2.52m).

#### Consumer Products

GOoutdoors (formerly CCCoutdoors) is a retailer of outdoor clothing, equipment and travel goods. The original investment of £500,000 in May 1998 supported the buy out from its previous owner. The second investment in March 2002 was made in support of the company's first acquisition.

With the acquisition of Touchwoods in Oxford in 2005 and the opening of a new store in Cheadle in 2006, the business has grown to a network of six stores.

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



### Sheet Piling (UK) Limited

Cost	£110,000
Valuation	£1,378,000
Date of investment	June 2000
Equity held	36.00%
Valuation basis	Earnings multiple
Location	Preston

For the period ended 30 May 2005 audited pre-tax profits were £0.67m on turnover of £10.04m (2004: £0.32m and £9.37m respectively). At 30

May 2005 net assets were £1.38m (2004: £1.11m).

#### Construction

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, following which the MBO team successfully doubled turnover and diversified into supplying polymer piles for use in situations where the longevity of steel piles is insufficient, such as in marine environments.

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

# Investment Adviser's Review

## Secure Mail Services Limited



Cost	£358,000
Valuation	£1,051,000
Dates of investment	September 2002, September 2003 and February 2004
Equity held	5.61%
Valuation basis	Earnings multiple
Location	Northampton

For the year ended 31 March 2005 audited pre-tax profits were £1.60m on turnover of £43.90m (2004: pre-tax losses of £3.42m and £23.88m respectively). At 31 March 2005 net liabilities were £1.70m (2004: £3.26m).

### Support Services

Secure Mail Services is a specialist mail company supplying secure and bespoke nationwide collection and delivery solutions for valuable mail and small parcels to a wide range of businesses.

After the original investment, which supported the management buy-out/buy-in of Special Delivery Services Limited, a further investment was made as part of the funding for the expansion of depots following the award of a substantial contract for the delivery of UK Passports.

The company has continued to expand rapidly, developing and diversifying its services and customer base.

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

## The JDA Group Limited



Cost	£30,000
Valuation	£629,000
Date of investment	September 2000
Equity held	15.00%
Valuation basis	Earnings multiple
Location	Leeds

For the year ended 31 December 2004 audited pre-tax profits were £0.82m on turnover of £17.97m (2003: £0.71m and £15.47m respectively). At 31 December 2004 net assets were £1.66m (2003: £1.28m).

### Support Services

JDA continues to be one of the UK's most experienced and well-established relationship marketing agencies. It remains a top 20 agency for multi-disciplinary expertise and, with 21 years industry experience, it has been able to provide successful marketing solutions for clients such as Royal Mint, British Telecom, HBOS, Tui, Lakeland and Cattles.

Through the Warrington division, the company offers clients access to wider media and creative skills, including traditional PR services.

The company has an active division specialising in providing web related services which, during the year, included an SMS (text) based competition highlighting the issue of DVD piracy, on behalf of the Industry Trust for IP Awareness.

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

# Investment Adviser's Review



## Images at Work Limited

Cost	£315,000
Valuation	£598,000
Date of investment	March 1999
Equity held	33.33%
Valuation basis	Earnings multiple
Location	Salisbury

For the year ended 30 September 2005 audited pre-tax profits were £0.13m on turnover of £4.72m (2004: £0.07m and £4.76m respectively). At 30 September 2005 net assets were £0.73m (2004: £0.69m).

### Support Services

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 program to several of the national and regional emergency services, police and fire brigades. Its proprietary IT system allows the clothing requirements of every officer to be recorded, analysed and compared to budget.

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



## Primal Pictures Limited

Cost	£500,000
Valuation	£305,000
Date of investment	March 2001
Equity held	3.84%
Valuation basis	Valuation at last reporting date
Location	London

For the year ended 31 December 2004 audited pre-tax profits were £0.02m on turnover of £2.27m (2003: pre-tax losses of £0.66m and £2.18m respectively). At 31 December 2004 net liabilities were £0.06m (2003: £0.18m).

### Healthcare

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 completely authentic anatomical model of the human body.

With a fully mapped human body product, the company is continuing to expand its business development activities namely to the large and potentially lucrative allied health and student markets.

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



# Investment Adviser's Review

## Tekton Group Limited



Cost	£292,000 Ordinary share fund £108,000 C share fund
Valuation	£292,000 Ordinary share fund £108,000 C share fund
Date of investment	December 2005
Equity held	17.0%
Valuation basis	Cost
Location	Manchester

Audited financial statements are not yet available.

### Software

Tekton is a leading supplier of software to the UK construction industry. The investment was made in December 2005 to fund the initial buy out of Intuita Limited and the simultaneous acquisition of Evison Limited, a complementary business based in Livingstone.

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

## Cambridge Cognition Limited



Cost	£325,000
Valuation	£195,000
Date of investment	May 2002
Equity held:	4.39%
Valuation basis	Revision to impairment at last reporting date
Location	Cambridge

For the year ended 31 December 2004 audited pre-tax losses were £0.78m on turnover of £1.31m (2003: £0.89m and £1.13m). At 31 December 2004 the aggregate net assets were £0.55m (2003: £0.91m).

### Software

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of the progress 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 in 50 countries. The language independent touch-screen technology runs on most modern IT platforms, supported by a normative database gathered over 20 years to deliver high accuracy results of even very subtle changes of cognitive behavior.

The company has recently raised £2 million to fund it through the period of application for FDA approval in the USA.

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

# Investment Adviser's Review



## RMF Engineering Limited

Cost	£90,000
Valuation	£35,000
Date of investment	February 1997
Equity held	25.00%
Valuation basis	Net Asset Value
Location	Dinnington

For the year ended 31 December 2004 audited pre-tax losses were £0.04m on turnover of £4.38m (2003: £0.05m and £2.77m respectively).  
At 31 December 2004 net assets were £0.57m (2003: £0.61m).

### Industrial

RMF is one of Europe's leading manufacturers of corrosion resistant chemical plants, specialising in providing tailor made solutions to problems in the process industry. The growth in the Chinese economy has impacted purchasing decisions in the capital equipment markets worldwide, as well as causing global raw material price inflation.

The company has successfully reduced its reliance on low margin high risk new plant manufacture to focus on a profitable business channel in repair maintenance and modification to existing plant in Europe.

[www.rmfe-engineering.co.uk](http://www.rmfe-engineering.co.uk)



## Freshroast Coffee Co. Limited

Cost	£5,000
Valuation	£6,000
Date of investment	July 1998
Equity held	12.97%
Valuation basis	Valuation at last reporting date
Location	Elland

For the year ended 31 December 2004 audited pre-tax profits were £0.07m on turnover of £2.88m (2003: £0.04m and £2.64m respectively).  
At 31 December 2004 net assets were £0.02m (2003: £0.21m).

### Consumer Products

Freshroast Coffee processes, packages and markets coffee, tea and other beverages and beverage constituents, providing an own branding service to vendors.

The loan advanced at the time of the original investment has now been fully repaid.



## Denison Mayes Group Limited

Cost	£100,000
Valuation	£Nil
Date of investment	August 1998
Equity held	-
Valuation basis	Full impairment
Location	Leeds

For the year ended 30 June 2005 audited pre-tax losses were £0.33m on turnover of £1.95m (2004 18 month period: £0.02m pre-tax profits and £3.66m respectively). At 30 June 2005 net liabilities were £0.54m (2004: £0.05m).

### Industrial

Denison Mayes provides a national maintenance service to a wide range of materials testing equipment used in the engineering market.

Following the agreement to sell the equity stake in this company back to management in September 2001, your Company has a residual loan of £100,000 remaining, which is repayable from August 2006.

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

# Investment Adviser's Review

## AIM Quoted Companies

### Cozart plc



Cost	£451,000
Valuation	£1,091,000
Date of investment	May 2001
Equity held	3.92%
Number of share held	3,895,419
Valuation basis	Quoted bid price
Location	Abingdon

For the year ended 31 May 2005 audited pre-tax losses were £0.45m on turnover of £4.74m (2004: £0.06m profit on £4.04m turnover). At 31 May 2005 net assets were £6.10m (2004: £0.88m).

#### Healthcare

Cozart is a medical diagnostics company specialising in the development and supply of testing devices for drugs of abuse. The highly portable Cozart RapiScan™ is suitable for on-site testing of motorists for evidence of drug use with ease, speed and accuracy.

The RapiScan™ product is currently used by a number of UK Police forces for testing suspects charged with "acquisitive" crimes. The Home Office contract has recently been extended to allow testing of suspects at the time of arrest. This should increase the number of tests being undertaken by the Police.

Since admission to AIM in 2004, the company has made a number of acquisitions to expand its geographical distribution. [www.cozart.co.uk](http://www.cozart.co.uk)

### Connaught plc



Cost	£112,000
Valuation	£720,000
Dates of investment	November 1998, July 1991 and January 2001, June, September and November 2005 and March 2006
Equity held	0.40%
Number of shares held	79,600
Valuation basis	Quoted bid price
Location	Sidmouth

For the year ended 31 August 2005 audited pre-tax profits were £6.66m on turnover of £239.58m (2004: pre-tax losses of £2.52m and £208.97m respectively). Fully diluted earnings per share were 20.5p (2004: loss per share of 13.0p) with a full year dividend per share of 8.6p (2004: 8.1p). At 31 August 2005 net assets were £27.48m (2004: £23.76m).

#### Consumer Products

The company operates as a facilities management and integrated property services group, engaged in building maintenance, light refurbishment, commercial fitting-out and electrical work. The company continues to perform well and the shares have followed suit, helped by exceptional visibility of earnings from long term contracts.

[www.connaught.plc.uk](http://www.connaught.plc.uk)

# Investment Adviser's Review



## Straight plc

Cost	£301,000
Valuation	£676,000
Dates of investment	February 2004, January, March and November 2005
Equity held	2.57%
Number of shares held	291,450
Valuation basis	Quoted bid price
Location	Leeds

For the year ended 31 December 2005 audited pre-tax profits were £1.51m on turnover of £24.34m. (2004: £0.71m and £12.81m respectively). At 31 December 2005 net assets were £8.91m (2004: £2.72m).

### Industrial

Straight supplies container solutions predominantly manufactured from plastics, 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.

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

## Mattioli Woods Pension Consultants

## Mattioli Woods plc

Cost	£238,000 Ordinary share fund £87,000 C share fund
Valuation	£375,000 Ordinary share fund £138,000 C share fund
Dates of investment	November 2005, February and March 2006
Equity held	1.45%
Number of shares held	246,412
Valuation basis	Quoted bid price
Location	Leicester

For the year ended 31 May 2005 audited pre-tax profits were £2.80m on turnover of £6.44m (2004: £1.61m and £4.66m respectively). At 31 May 2005 net assets were £4.88m (2004: £3.17m).

### Support Services

Mattioli Woods provides pensions consultancy and administration services primarily to owner-managers, senior executives and professional persons.

The Group's key activities include complex pensions consultancy, the provision of Self-Invested Personal Pensions ("SIPP") and Small Self-Administered Pension Schemes ("SSAS") and advice on related business affairs. Its focus is at the higher end of the market where clients require bespoke service and specialist advice.

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

# Investment Adviser's Review

## Dowlis Corporate Solutions plc



Cost	£219,000 Ordinary share fund £81,000 C share fund
Valuation	£311,000 Ordinary share fund £114,000 C share fund
Dates of investment	November 2005 and March 2006
Equity held	2.22%
Number of shares held	833,433
Valuation basis	Quoted bid price
Location	Manchester

### Support Services

Dowlis Corporate Solutions is a marketing solutions group focused on creative marketing solutions which include the use of Promotional Merchandise. The three key areas of the business are promotional and communications products, information solutions, and logistics, all focused on corporate promotional products.

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

For the period ended 31 December 2005 audited pre-tax losses were £0.91m on turnover of £26.23m. Net assets were £5.50m.

## Tikit Group plc



Cost	£225,000
Valuation	£393,000
Date of investment	June 2001
Equity held	1.54%
Number of shares held	195,752
Valuation basis	Quoted bid price
Location	London

### Software

Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms. The company also provides a range of document and knowledge management tools to a majority of the top 50 UK legal practices. The benefits of scale from recent acquisitions are now being realised and earnings are growing strongly.

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

For the year ended 31 December 2005 audited pre-tax profits were £0.63m on turnover of £20.16m (2004 restated: £0.86m and £11.90m respectively). At 31 December 2005 net assets were £5.16m (2004 restated: £4.87m).

# Investment Adviser's Review



## Belgravium Technologies plc

Cost	£146,000 Ordinary share fund £54,000 C share fund
Valuation	£183,000 Ordinary share fund £67,000 C share fund
Date of investment	October 2005
Equity held	3.81%
Number of shares held	1,428,570
Valuation basis	Quoted bid price
Location	Bradford

For the year ended 31 December 2005 audited pre-tax profits were £0.90m on turnover of £5.43m (2004: £0.75m and £3.86m respectively). At 31 December 2005 net assets were £741m (2004: £2.65m).

### Software

Belgravium is a computer design and manufacturing company, specialising in innovative mobile computers for the logistics, fuel and aviation markets.

Your Company invested on the acquisition of the complementary Touchstar Technologies in October 2005, and progress since then has been to plan.

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



## Cardpoint plc

Cost	£119,000
Valuation	£222,000
Dates of investment	June 2002 and April 2005
Equity held	0.24%
Number of shares held	248,496
Valuation basis	Quoted bid price
Location	Lytham St Annes

For the year ended 30 September 2005 audited pre-tax losses were £11.43m on turnover of £53.25m (2004: £3.06m on £36.81m respectively). Loss per share was 17.18p (2004: 7.56p) and no dividends were paid in either year. At 30 September 2005 net assets were £77.49m (2004: £36.39m).

### Consumer Products

Cardpoint is one of the UK's leading independent providers of ATMs (cashpoints) and has grown rapidly by acquisition and organically. At 31 March 2006 the share price had regained some of the ground lost following the news of problems at the Moneybox acquisition in November 2005.

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

# Investment Adviser's Review

## Oasis Healthcare plc



Cost	£392,000
Valuation	£179,000
Dates of investment	July 2000 and July 2001
Equity held	1.63%
Number of shares held	1,327,000
Valuation basis	Quoted bid price
Location	Norwich

For the year ended 31 March 2005 audited pre-tax losses were £2.89m on turnover of £74.87m (2004: £3.40m and £73.91m respectively). At 31 March 2005 net assets were £8.98m (2004: £11.76m).

### Healthcare

Oasis Healthcare owns and operates dental practices providing both NHS and private treatment. The company currently operates from a national estate of over 120 dental practices. The buy and build phase has left the business with a substantial debt burden and the focus has now moved to improving operational efficiency.

[www.oasis-healthcare.com](http://www.oasis-healthcare.com)

## Landround plc



Cost	£283,000
Valuation	£66,000
Date of investment	August 1999
Equity held	2.43%
Number of shares held	143,927
Valuation basis	Quoted bid price
Location	Chester

For the 16 month period ended 31 January 2006 pre-tax losses were £2.24m on turnover of £14.38m (year ended 30 September 2004: £0.23m pre tax profits and £11.31m respectively). At 31 January 2006 net assets were £1.66m (30 September 2004: £3.57m).

### Consumer Products

Landround specialises in creating and servicing innovative low cost, high value, travel and holiday themed promotions for hundreds of leading companies. Its travel reward programme, 'Buy and Fly' is now well established.

Announcements in August and September 2005 referred to the liquidation of a substantial customer and the impact of a change in revenue recognition policy and have resulted in a significant fall in share price since then. Management changes have been implemented and the company's board believes the business model is sound with its restructured cost base.

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

# Investment Adviser's Review

The corporate merger and acquisition activity has been strong this year and as a consequence we have seen an increased number of approaches from potential trade buyers for businesses within the Company's portfolio. Two of these approaches resulted in the highly successful disposals of Harlands of Hull Limited and International Resources Group Limited at significant gains in excess of the initial investment. In addition, the AIM market has remained active throughout the year, providing a route to greater liquidity for unquoted investments, allowing your Company to realise some small gains through the disposal of some AIM stock holdings.

## Investment Activity

One effect of the benign economic environment during the year was the trend towards higher valuations of unquoted businesses which we might have considered for investment. From the network of nine offices across the UK operated by YFM Private Equity and other companies in the YFM Group, we have a balanced view of a very wide range of investment proposals. However, we have taken a selective stance and resisted the temptation to invest if the price, in our opinion, is too high. We believe a correction in entry values will come in due course with the unquoted market reverting to historic multiples.

There were four new investments made during the year, amounting in total to £1.23 million, of which £330,000 was made from the C share fund. As stated in the C share prospectus, investments are allocated between the Ordinary share fund and the C share fund on a pro rata basis, based on funds available for investment. After nine months, as at 31 March 2006 the C share fund is 27% invested. This is slightly ahead of our expectations.

Your Company supported the management buyout of unquoted Intuita Limited and its simultaneous acquisition of Evision Limited. Both companies were offering complementary software products to the construction industry and the combined business is a good synergistic fit. The enlarged business has since changed its name to Tekton Group Limited. Although the investment was only made towards the end of the year, the integration of the two businesses is proceeding to plan and the company reported significant new contract wins and strong trading results.

Three of the new investments were made in companies on their admission to AIM, being Mattioli Woods plc, Dowlis Corporate Solutions plc and Belgravium Technologies plc. All three posted significant increases to their initial value by the end of the year, with an average unrealised uplift of 44%.

In the coming year, we will be seeking to selectively invest in companies that have already demonstrated impressive performance in niche markets within growing sectors and led by management teams with vision and commitment. Our policy will be to obtain an influential stake in sound businesses that can be grown to the critical size which attracts the interest of trade buyers, or alternatively position the company for a flotation on a quoted market.

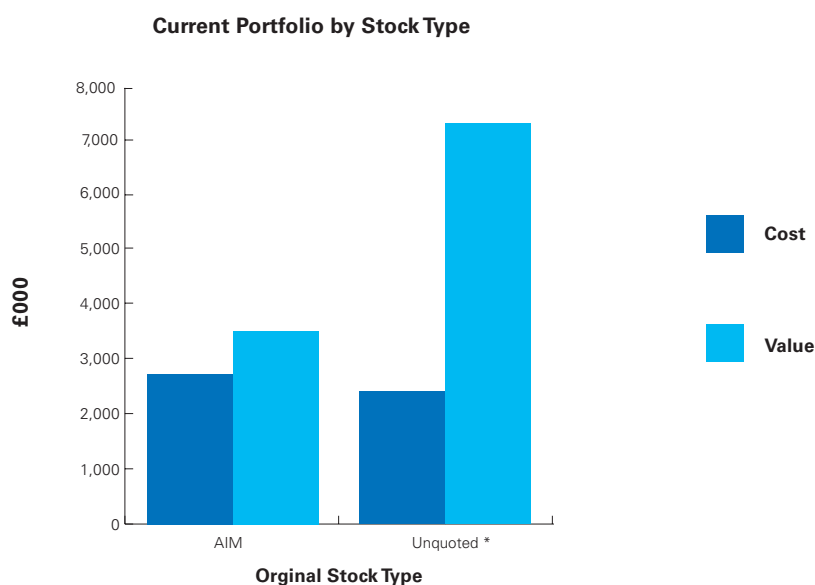
Your Company's investment strategy is not expected to be affected by the proposed changes to the Finance Bill that reduce the qualifying size of gross assets of an investee company from £15 million and £16 million pre and post investment to £7 million and £8 million respectively.



# Investment Adviser's Review

## Portfolio Performance

For the third year running we are pleased to be able to report a strong performance from the portfolio as a whole. During 2005/2006, a significant contribution to this increase is value attributed to three investments in the unquoted venture capital portfolio being Sheet Piling (UK) Limited, Secure Mail Services Limited and International Resources Group Limited, the last of which provided a cash exit through a trade sale.



\*Unquoted includes the investment in Cozart plc which was originally an unquoted investment.

## Unquoted Portfolio

On a like for like basis the unquoted portfolio has performed exceptionally well over the year, rising over 31%. It is encouraging to see that the good trading conditions reported by most businesses were reflected in the paying down of loans and preference shares, with a cash flow of £305,000 back to your Company from these sources. In addition, over the year, highly profitable exits were achieved at Harlands of Hull Limited and International Resources Group Limited.

In May 2005, Harlands of Hull was sold to a competitor returning initial net proceeds to your Company of £1.55 million, with a further deferred payment of £38,000 being received in August 2005. This represented a cash return on capital of 3.2 times the original investment in less than two years.

International Resources Group, trading as Odgers Ray & Berndtson, had seen an exceptional period of growth over the past few years, placing it amongst the elite of the UK recruitment industry. This success was recognised in a trade offer which completed towards the end of 2005 when your Company received £1.38 million for its 6.6% stake in the business. This represented £568,000 more than our carrying value in March 2005 and a multiple of 29 times our original ordinary shareholding stake of £47,300.

The strong turnaround at Secure Mail Services Limited (formerly Special Mail Services) under its new management team has continued through the year justifying a revaluation of the investment to £1.05 million. This is an increase of 86% above the carrying value last year.

# Investment Adviser's Review

Sheet Piling (UK) Limited, with its specialist technology, experienced a buoyant year improving both profitability and cash flow. As a result, it was in a position to repay £195,000 of loan stock and justify a significant increase in the value of your Company's equity stake.

Although Images at Work Limited continued to experience price deflationary pressures placing margins under strain, it repaid £30,000 of preference shares during the year. A number of competitors have shown interest in acquiring Images at Work for its unusually good sales visibility arising from the long term contracts for supplying clothing services to the emergency services sector.

Cambridge Cognition Limited reported a successful year in 2005, having made progress in generating revenues from the pharmaceutical sector as well as from its traditional academic stronghold. It was also successful in raising £2 million of new investment in April 2006 and our valuation uplift is based on the price paid for that new investment.

GOoutdoors Limited (formerly CCCoutdoors) has experienced rapid sales growth as a result of opening new stores, most notably a new 50,000 square foot unit in Coventry, albeit that investment in opening costs has reduced corporate profitability. However, it is pleasing to report that the Coventry unit broke into profit ahead of budget. Additional store openings around the country are planned for the next few years as the next stage of the growth strategy is implemented. Your Company's investment is valued at 10.8 times the original net cost of investment.

Primal Pictures Limited, with a fully mapped human body product, continues to make sales in-roads into the all important educational sector in the USA. Earlier this financial year, it signed contracts with two international publishing distributors that will provide important channels to new markets.

The direct response agency, The JDA Group Limited, has had a satisfactory year, growing the business to offer new public relations, and other creative services and also building its expertise in web-related services.

## AIM Portfolio

The strong performing stocks in the quoted portfolio of 12 companies have been Connaught plc, Dowlis Corporate Solutions plc, Mattioli Woods plc and Straight plc, which between them delivered a valuation increase of £703,000. There were several respectable gains elsewhere in the portfolio, but these increases were offset by falls at Cardpoint plc, Cozart plc and Landround plc.

The value proposition offered by Cozart's Rapiscan™ technology, which provides rapid tests for drugs of abuse, remains a strong one. Part of the proceeds of the cash raised at flotation have been applied in acquiring related businesses in Spain and Scandinavia. Steady progress is being made in increasing the UK turnover, primarily through its use in 178 police custody suites under the Drugs Act 2005. The business is still young with strong potential growth opportunities.

During the year, after careful review, we concluded that prospects at Bond International Software plc, First Artist Corporation plc and Warthog plc did not meet our growth criteria and accordingly your Board took the opportunity to dispose of the entire holdings on any sign of strength. The holding in Bond International Software was realised crystallising a profit of £40,000 above the original cost of £53,000. In the case of First Artist, we were able to dispose of your Company's holding, which had fallen significantly in value since we first invested in March 2001, at a small profit of £10,000 to our carrying value at the start of the year. Warthog, which was carried at £9,000 at the start of the year, was sold for just under £6,000, realising a small loss over the year.

## Cash Reserves

In addition to the substantial proceeds from the sale of Harlands of Hull and International Resources Group, a number of partial disposals of AIM stock holdings and scheduled redemptions of preference shares and loan stock, cash available for future investment was further increased by fund raising activities during the year. This fund raising came from three sources: the C share issue which closed early in the financial year; the Dividend Reinvestment Scheme; and the top up issue which closed fully subscribed just prior to the year end. In total, cash and cash equivalents increased by a net £3.2 million during the year, allowing your Company to support the growth of the existing portfolio, make selective new investments over the forthcoming year and maintain your Company's dividend and share buy back policies.

In line with the venture capital trust legislation, the £1.23 million raised under the C share issue is separately accounted for until it is converted into Ordinary shares. Your Board has determined that this conversion will take place when the C share pool is 70% invested. The number of Ordinary shares issued to C share holders will be determined by the relative net asset values of the two share pools at that time. The Company has three years from the raising of the money to achieve the 70% target.

## Effects of the Budget on VCTs

In his March 2006 budget statement, the Chancellor of the Exchequer announced a number of changes to the conditions applying to VCT monies raised after 5 April 2006. Of immediate impact was the reducing of the gross asset test from £15 million to £7 million when assessing new companies for investment. With this change only applying to new monies it does not affect your Company other than in respect of monies raised under the Dividend Reinvestment Scheme. Once the Finance Bill is enacted the precise implications of this area will be clarified. Had the gross assets test applied throughout the life of your Company it would not have had any significant impact on the investments that have been made.

One other change relates to the process by which venture capital trusts maintain their qualifying status when a significant realisation is made. Venture capital trusts have to maintain 70% of their investments in qualifying companies at all times. In some instances where there is a significant realisation, HM Revenue & Customs has allowed a reclassification where monies can be retained on a non-interest bearing deposit account, thereby ensuring compliance with the legislation, prior to a cash distribution or re-investment. The budget proposes to remove this flexibility. The venture capital trust managers are working with HM Revenue & Customs to agree an appropriate mechanism that retains the flexibility without having to utilise non-interest bearing deposit accounts.

The other material changes introduced in the budget were the reduction of the income tax relief to 30% (from 40%) and the increase in the required holding period for shareholders from three years to five years. Again, both these changes are only in respect of monies raised after 5 April 2006.

It is generally accepted that the income tax relief remains an attractive benefit for tax payers and should have only marginal impact on the rationale for investors who wish to hold VCT shares, offering a spread of investments in the AIM and unquoted sectors, as part of their personal diversified asset portfolio.

The return to a minimum holding period of five years in order for shareholders to retain their initial income tax relief reinforces the message that VCT shares are a long term investment and, although a listed stock, trading in these shares is likely to be limited, at least in the short to medium term.

# Investment Adviser's Review

## Summary and Outlook

Your Company's portfolio continued to make pleasing progress during the year under review. In recent years, the emphasis has been on working closely with portfolio companies to help them deliver their business plans. This policy has resulted in two successful exits during the year by way of trade sales which realised, in total, a profit of £2.43 million above original cost.

Several of the companies remaining in the unquoted portfolio have received acquisition approaches during the year and certain negotiations are being progressed. Provided the positive acquisition environment is maintained, it is possible that other profitable exits will be achieved over the coming year.

New investment activity during the year was carried out selectively. As in any portfolio, there are companies which out perform expectations and those that disappoint. The businesses that have not met our expectations this year are generally well placed to deliver growth in the future.

The excellent performance in the year has enabled your Board to recommend a final dividend of 3p per Ordinary share. If approved, this takes the total dividend in respect of the year ended 31 March 2006 to 4.5p per Ordinary share. The performance of the new investments has enabled the first dividend, of 0.5p per share, to be proposed on the C shares. Both dividends are tax free to eligible shareholders, increasing the effective yield to higher rate tax payers.

David Hall  
Managing Director  
YFM Private Equity Limited  
30 June 2006

# Valuation of Investments

The Company's venture capital investments, or financial assets, are designated as investments held at fair value through profit or loss. In valuing venture capital investments, the directors follow the criteria set out below. These procedures comply with IAS 39 'Financial instruments: Recognition and Measurement' and the International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines issued in March 2005 where they do not conflict with IAS 39.

IAS 39 defines fair value as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

## 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 unquoted in an active market is the transaction price (i.e. cost).

## Subsequent Measurement

IAS 39 and the IPEVC Valuation Guidelines set out a range of methodologies to enable investments to be stated at fair value at the reporting date. In estimating fair value, the methodology applied should be appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total investment portfolio and should use reasonable assumptions and estimates. Methodologies should be applied consistently from period to period, except where a change would result in a better estimate of fair value.

## Unquoted Investments

The IPEVC Valuation Guidelines classify valuation techniques as primary and secondary. Wherever possible, one of the primary valuation techniques will be used to determine fair value.

### Primary valuation techniques

- 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 six 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 six 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.

# Valuation of Investments

## Secondary valuation techniques

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

## Quoted Investments

Quoted investments are valued at market price. Where a bid price is available, this is used to determine fair value. Otherwise, the mid-market price is used.

## **Sir Andrew Colin Hugh Smith, Chairman (74)**

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

## **Philip Simon Cammerman (64)**

He has over 25 years of industrial experience in engineering and hi-tech industries and has worked in both the USA and the UK. He has spent the last 21 years in the venture capital industry and is a director of YFM Private Equity Limited and YFM Group Limited. He has been responsible for a wide range of venture capital deals in a variety of industries including 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.

## **Richard Last (48)**

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

## **Robert Martin Pettigrew (61)**

A founding director of The Generics Group of companies, he has extensive experience in the commercial exploitation of new technologies. He has technical expertise in opto-electronics and fibre optics, optical component and system design, lasers and laser applications. He is a non-executive director of British Smaller Technology Companies VCT 2 plc.

## **Stephen John Noar (58)**

Appointed to the Board on 3 May 2005. A dentist by profession, he was the founder chairman and former chief executive of Denplan Limited until its successful trade sale in 1993 following its growth from start up to a turnover in excess of £70m. He was the New Business and Dental Director of PPP Limited (prior to the company's acquisition by Guardian Royal Exchange) responsible for developing dental and other services. In 1994 he was the winner of the Financial Times Venturer of the Year award. He is a non-executive director of British Smaller Technology Companies VCT 2 plc and also Cozart plc following the investment in this company.

## **Secretary and Registered Office**

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

**Registered No: 3134749**

# Directors' Report

## For the Year Ended 31 March 2006

The directors present their report and audited accounts of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2006.

### 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 Section 842AA of the Income and Corporation Taxes Act 1988. It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Section 842AA of the Income and Corporation Taxes Act 1988.

### Business Review

Under Companies Act legislation, the directors are now required to prepare an extended business review to provide a balanced and comprehensive analysis of the performance during the financial year, the position of the Company at the end of the year and an indication of likely future developments. The development, performance and business risks are referenced through the reporting of Key Performance Indicators.

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 Investment Adviser's Review. The Company, in common with the venture capital trust industry, does not have any employees apart from the five directors. The business and administrative duties of the Company are contracted to the Investment Adviser, YFM Private Equity Limited, with the Board retaining the key decision matters for approval. Hence, the Board manages the business affairs of the Company through regular management reports from YFM Private Equity and, through this process, ensures that it has sufficient resources to carry out its functions.

### Key Performance Indicators

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

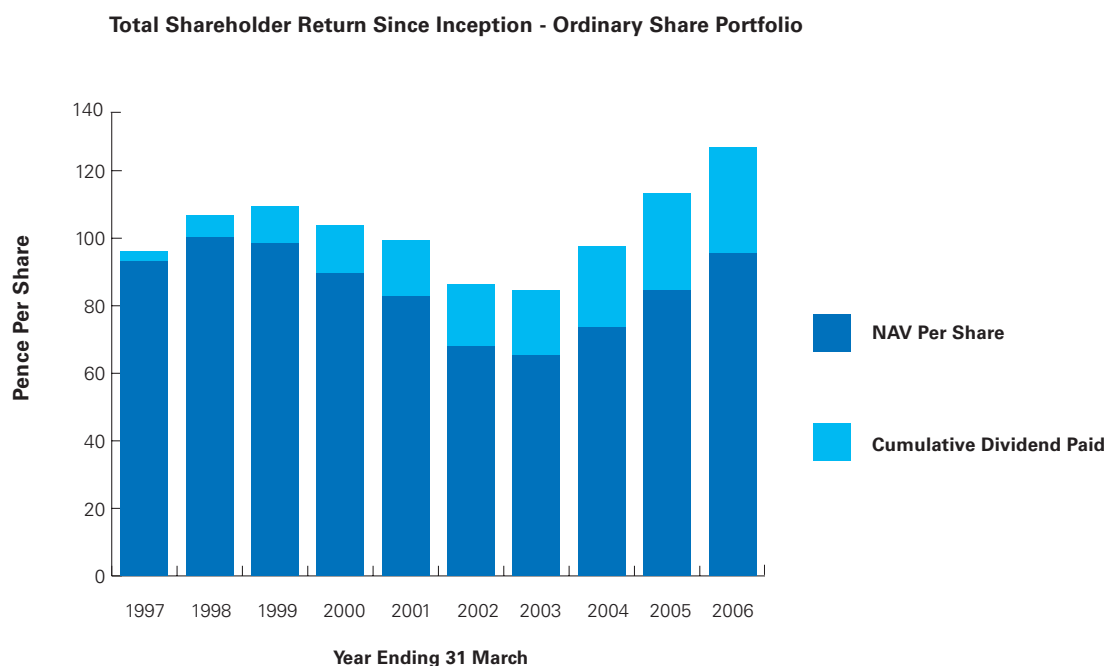
### Total Return

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

This measurement is used by the industry commentators to compare relative performance across different VCTs on the same basis.



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



The evaluation of comparative success of the Company's total return is by way of reference to the net cost of investment for the founder eligible shareholder which was 80 pence per share (net of 20% basic tax relief) and by comparison to the FTSE™ All-Share Index over that same period. This is the Company's stated benchmark index and is the comparator by which the Investment Adviser's incentive scheme is based on. 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 section 842AA of the Taxes Act 1988, in addition to the requirement for a VCT's ordinary capital to be listed in the Official List of the London Stock Exchange throughout the period, there are a further five specific tests that VCTs must meet on a continuing basis following the initial three year provisional period.

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. These are checked for consistency to the management reports and any variations explained. During the year under review, there were no variations to report.

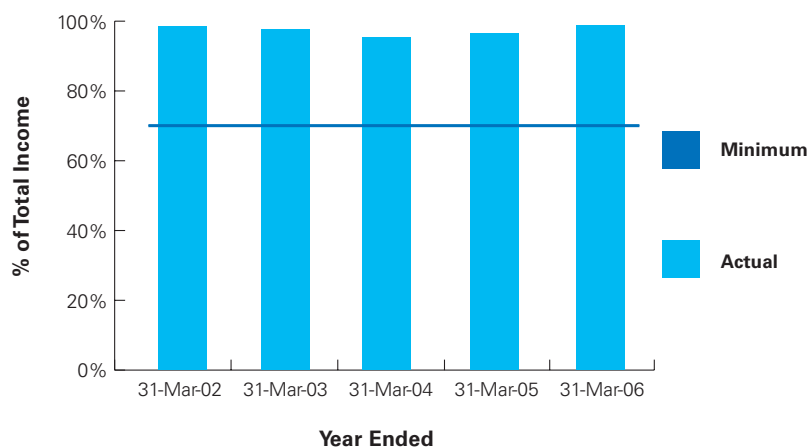
# Directors' Report

## i) Income Test

The Company's income in the period must be derived wholly or mainly (at least 70%) from shares or securities. The only income that is not derived by the Company from shares and securities is that from interest on cash deposits.

In the year ended 31 March 2006, income derived from shares and securities totalled £404,000 compared to total income of £413,000. Therefore, the percentage under this test was 97.8% (2005: 96.5%).

## Income Derived from Shares or Securities



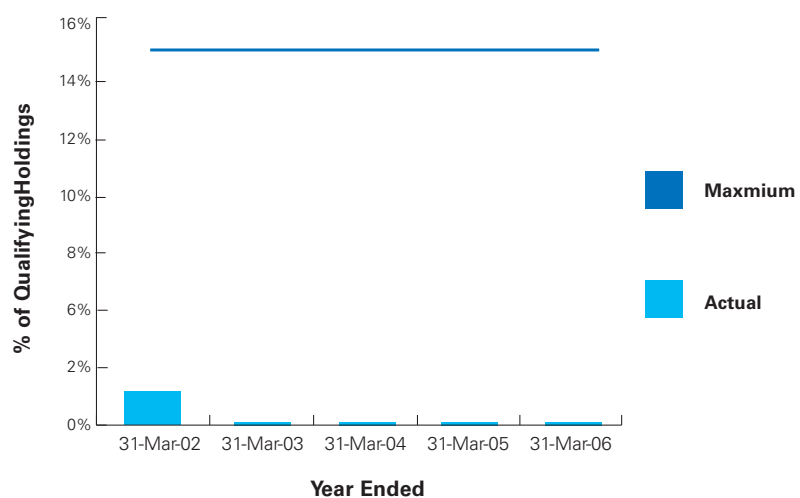
## ii) Retained Income Test

The Company must not retain more than 15% of its income from shares and securities. Net income, that is after deducting administrative expenses from total income but before the inclusion of realised and unrealised capital gains and losses, is compared to the actual and proposed dividend distributions in respect of that financial year to ensure that not more than 15% of net income is retained in the VCT.

In the year ended 31 March 2006, there was a net loss before capital gains and losses of £103,000. Therefore, no net income is being retained in the VCT for the year under review (2005: Nil). The final dividend proposed of 3 pence per share is from retained profits.

For the purposes of this test, dividends proposed are recognised in the accounts declared.

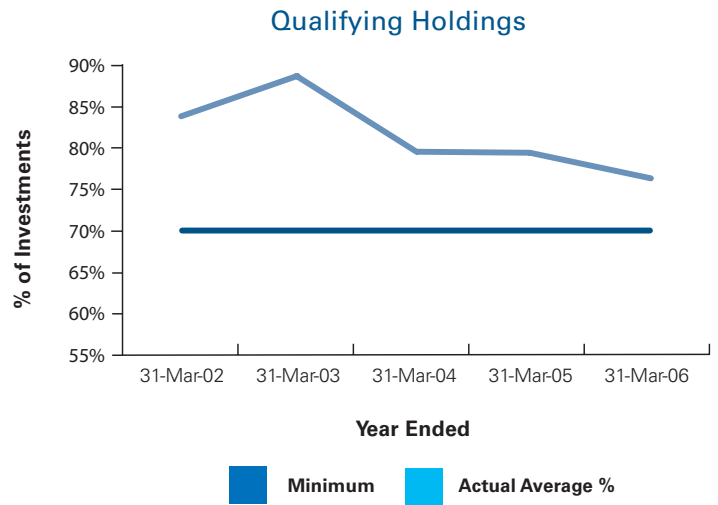
## % of Income Retained



### iii) 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. Under the legislation, "value" is regarded as the last purchase price per share multiplied by the number of shares held. This test is continually applied throughout the year and not just at the reporting date.

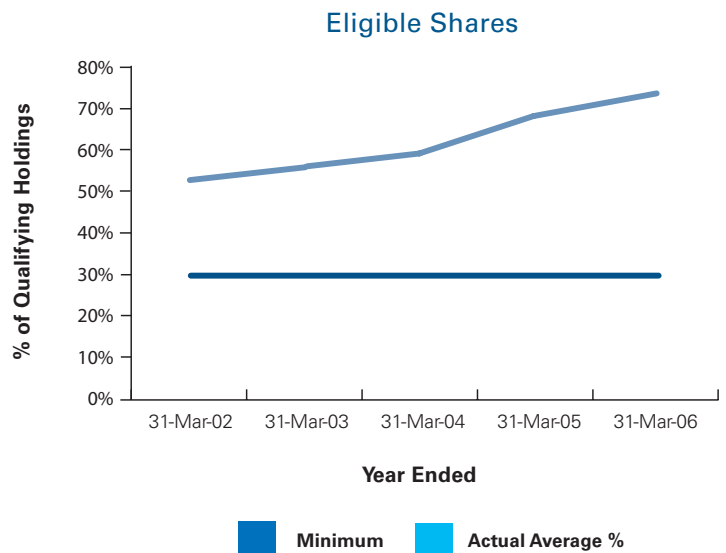
The Board can confirm that this test was continually met throughout the year under review. The percentage of total investments held as qualifying holdings at 31 March 2006 was 72% with an average holding during the year of 76% (2005: 78% and 78% respectively).



### iv) Eligible Shares Test

At least 30% of the Company's qualifying holdings must be represented throughout the period by holdings of Ordinary shares.

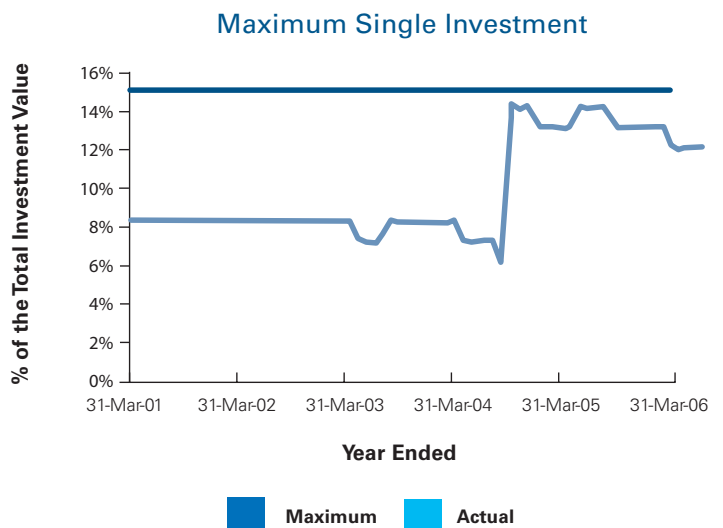
The Board can confirm that this test was continually met throughout the year under review. The percentage of qualifying holdings held as Ordinary shares at 31 March 2006 was 76% with an average holding during the year of 75% (2005: 72% and 67% respectively).



### v) 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. Value is calculated as in (iii) above. The test applies at the time of the investment and at the time of any further additions. Therefore, this rule cannot be breached passively, i.e. by the realisation of one investment forcing the value of another to breach this rule.

The Board can confirm that this test was complied with throughout the period. The largest single holding at 31 March 2006 was Cozart plc at 12% (2005: Cozart plc at 14%).



# Directors' Report

## Results and Dividends

The Income Statement for the year is set out on page 40. The profit on ordinary activities after taxation for the year, amounted to £2,283,000 (2005: loss of £45,000).

Following the publication of the Company's interim financial results, a 1.5p per Ordinary share interim dividend was paid on 10 January 2006 to Shareholders on the register on 11 November 2005.

The directors recommend the payment of a final dividend of 3p per Ordinary share (2005: 2.2p) and 0.5p per C share (2005: nil) which will be paid on 11 August 2006 to Shareholders on the register on 2 June 2006. A resolution to this effect will be proposed at the Annual General Meeting to be held on 1 August 2006.

The net asset value per share on the combined Ordinary and C share funds at 31 March 2006 was 97.9p (2005: 86.7p).

## Issue and Buy-Back of Shares

### Ordinary Shares

On 23 June 2005, the Company purchased for cancellation under existing authority granted by the Shareholders 100,000 Ordinary shares of 10p each in the market, representing 0.66% of the issued called-up share capital at that date, at a price of 76.5p per share for cash.

On 15 August 2005, the Company purchased for cancellation under existing authority granted by the Shareholders 100,000 Ordinary shares of 10p each in the market, representing 0.67% of the issued called-up share capital at that date, at a price of 75.5p per share for cash.

On 16 August 2005, the Company issued 27,625 Ordinary shares of 10p each under its Dividend Reinvestment Scheme.

On 29 September 2005, the Company purchased for cancellation under existing authority granted by the Shareholders 50,000 Ordinary shares of 10p each in the market, representing 0.33% of the issued called-up share capital at that date, at a price of 75.5p per share for cash.

On 10 January 2006, the Company issued 32,582 Ordinary shares of 10p each under its Dividend Reinvestment Scheme.

On 14 February 2006, the Company purchased for cancellation under existing authority granted by the Shareholders 170,000 Ordinary shares of 10p each in the market, representing 1.14% of the issued called-up share capital at that date, at a price of 83p per share for cash.

During the year the Company issued 896,115 Ordinary shares under the Top Up Offer and raised net proceeds of £829,430. Since the year end the company has issued a further 576,764 Ordinary shares for net proceeds of £533,159.

### C Shares

During the year the Company issued 1,009,101 C shares and raised net proceeds of £983,847.

## Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 69 of these financial statements.

In addition to the Ordinary Business of the meeting, as part of the Special Business of the meeting, Special Resolution (1) will be proposed to renew and extend the existing directors' authority to allot equity securities for cash without pre-emption rights applying in certain circumstances. This resolution would authorise the directors, until the date falling 15 months after the date of the passing of the Resolution or, if earlier, the conclusion of the next Annual General Meeting of the Company to issue Ordinary or C shares for cash without pre-emption rights applying by way of offer to existing shareholders either: by way of performance incentive payments to the Company's Investment Adviser in connection with arrangements first entered into in 1996; under the dividend reinvestment scheme (see below); or otherwise up to a maximum of 1,562,136 Ordinary shares or 125,868 C shares (representing approximately 10 per cent of each class of the Company's issued share capital as at 31 May 2006) so that the directors may offer existing shareholders the opportunity to add to their investment or to offer to potential shareholders an opportunity to invest in the Company in a tax efficient manner without the Company having to incur substantial costs.

The directors have suspended the operation of the dividend reinvestment scheme and following the finalisation of the relevant provisions under the Finance Act 2006 and the evaluation of its impact on the Company, the future of the dividend reinvestment scheme will be reconsidered. However, the extension of the directors' authority to allot equity securities for cash without pre-emption rights applying, referred to above, will enable the directors to allot Ordinary shares and C shares in lieu of dividends pursuant to the dividend reinvestment scheme should the scheme be reinstated.

The current authority of the Company to make market purchases of up to approximately 14.99 per cent of its issued capital expires on 6 July 2006. Special Resolution (2) seeks renewal of such authorities until 30 January 2008. The price paid for shares will not be less than the nominal value nor more than the maximum amount determined by the rules of the UK Listing Authority at the time of purchase. This power will be exercised only if, in the opinion of the directors, a repurchase would be in the best interests of shareholders as a whole. Any shares repurchased under this authority will either be cancelled or held in treasury for future re-sale in appropriate market conditions.

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

The Company's Articles of Association require that, until conversion of the C shares takes place, the holders of the two classes of share – Ordinary and C shares - each acting as a class, give their consent to the proposals outlined in the previous paragraphs and accordingly separate class meetings of the Ordinary shareholders and of the C shareholders will be held immediately prior to the Annual General Meeting. Holders of C shares and of Ordinary shares will find enclosed Notice of Class Meetings of the relevant classes containing information regarding the proposals and the required class consents.

The proposed Special Resolutions at the Annual General Meeting will not take effect unless separately approved at the Class Meetings.

## Substantial Shareholding

YFM Group Limited, the parent company of YFM Private Equity Limited, which acts as the Investment Adviser and provides administrative and secretarial services to the Company, held 3.4% (2005: 3.5%) of the total issued Ordinary share capital at the date of this report. The directors are not aware of any other substantial shareholdings representing 3% or more of the Company's issued share capital at the date of this report.

# Directors' 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, the average number of payable days during the year was 15 (2005: 16).

## Directors and their Interests

The directors of the Company at 31 December 2005, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 35 to 37.

## Non-Current Assets

Movements on investments held at fair value through profit or loss are shown in notes 7 and 8.

## Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

## VCT Status Monitoring

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

## Events after the Balance Sheet Date

There have been no significant events, including venture capital investments made, following the year end.

## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing these financial statements.

The directors are responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published at [www.yfmprivateequity.co.uk](http://www.yfmprivateequity.co.uk), which is a website maintained by the Company's Investment Adviser. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination may differ from legislation in other jurisdictions.

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

## Statement of Corporate Governance

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

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

## Role of the Board

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

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

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

## Board Composition

The Board consists of five non-executive directors, four of whom are regarded by the Board as independent and four of whom are regarded as independent of the Company's Investment Adviser, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although the Combined Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in this Company, and taking account of the Chairman's role within other venture capital trusts to which YFM Private Equity Limited is the Investment Adviser, are satisfied that Sir Andrew Hugh Smith continues to fulfill the criteria for independence as non-executive director. The directors have a breadth of investment, business and financial skills and relevant experience to the Company's business and provide a balance of power and authority, including recent and relevant financial experience. Brief biographical details of each director are set out on page 21.

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.

# Directors' Report

## Tenure

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

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

The directors recommend the re-election for a further year of Sir Andrew Hugh Smith, Mr P Cammerman and Mr R Last, all of whom retire by virtue of service for more than nine years. The Board recommends the re-election of these directors at this year's AGM because of their commitment, experience and contribution to the Company. The directors further recommend the re-election for a further 3 years of Mr R Pettigrew who falls for re-election at the forthcoming Annual General Meeting.

## Meetings and Committees

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

The table below details the number of Board and Audit committee meetings attended by each director. During the year there were 6 formal Board meetings and 2 Audit Committee meetings. The directors met via telephone conference on 18 other occasions.

Director	Board meetings attended	Audit Committee meetings attended
Sir Andrew High Smith	6	2
Philip Simon Cammerman	5	n/a
Richard Last	5	2
Robert Martin Pettigrew	5	1
Stephen Noar	6	2

## Training and Appraisal

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

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



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

## Nomination Committee and Remuneration Committee

Due to the size of the Board and the appointment and remuneration procedures currently in place, in the directors' opinion, there is no role for an Independent Remuneration or Nomination Committee. The Directors' Remuneration Report may be found on pages 35 to 37. Any proposed appointment to the Board is a matter for the whole Board.

Mr Stephen Noar joined the Board in May 2005 bringing considerable commercial and investment experience and, in particular, venture capital trust experience as a director of two other venture capital trusts, British Smaller Technology Companies VCT 2 plc and the former British Smaller Technology Companies VCT plc, through which he is well known to the other directors. In attending Board meetings of the Company as an observer and in meetings with the directors prior to his appointment, he received a detailed introduction to the business and affairs of the Company. In selecting Mr Noar as a non-executive director, the directors were able to rely on their knowledge of his considerable contribution to his work on the other Boards referred to above and accordingly did not consider it appropriate to advertise the appointment or use external search agencies. Mr Noar did not hold any Ordinary or C shares at the date of his appointment.

## Audit Committee

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

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

The Audit Committee consider the independence and objectivity of the auditors on an annual basis. The Audit Committee consider 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.

## 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.

# Directors' Report

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Investment Adviser are available in person to meet with and answer shareholders' questions. In addition, representatives of the Investment Adviser periodically hold shareholder workshops which review the Company's performance and industry developments. During the year, the Company's broker and the Investment Adviser have held regular discussions with shareholders. The directors are made fully aware of shareholders' views. The Chairman and directors make themselves available, as and when required, to address shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 21.

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 21. 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 each resolution.

## Internal Control

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

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

The Board confirms that procedures to implement the guidance, Internal Control: Guidance for Directors on the Combined Code ("the Turnbull Report"), were in place throughout the year ended 31 March 2006 and up to the date of this report.

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

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

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

## Corporate Governance and Voting Policy

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

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

## Going Concern

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

## Investment Policy

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

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

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

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

# Directors' Report

## 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 pages 19 and 20 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 2006 can be found in the Investment Adviser's Review and notes 7 and 8 to these Financial Statements.

## By order of the board

J E P Gervasio  
Company Secretary  
30 June 2006

# Directors' Remuneration Report

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

## Directors and their Interests

The directors of the Company at 31 March 2006 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as follows:

	<b>Number of Ordinary Shares at 31 March 2006</b>	<b>Number of C Shares at 31 March 2006</b>	Number of Ordinary Shares at 31 March 2005
Sir Andrew Hugh Smith	<b>30,000</b>	<b>10,000</b>	30,000
P S Cammerman	<b>20,025</b>	<b>5,000</b>	15,000
R Last	<b>15,000</b>	<b>10,000</b>	15,000
R M Pettigrew	<b>17,500</b>	<b>5,075</b>	17,500
S Noar	-	-	-

None of the directors have subscribed for further Ordinary shares or C shares since the year end.

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

None of the directors held any C shares at 31 March 2005.

Brief biographical notes on the directors are given on page 21. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below, and, save as described under "Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves.

The Company had no employees in either year.

## Administration

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

Under the Subscription Rights Agreement dated 28 February 1996, YFM Private Equity Limited has a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 10% of the total return to shareholders. However, such incentive will only apply in the event that the return to shareholders (after taking account of the effect of the incentive) is at least equal to the movement in the FTSE™ 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. 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.

# Directors' Remuneration Report

## Basic Remuneration

Total remuneration for the four (2005: seven) directors for the year amounted to £44,167 (2005: £74,999, which included £19,999 as compensation for loss of office).

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

	<b>2006</b>	2005
	<b>£</b>	£
Sir Andrew Hugh Smith	<b>15,000</b>	15,000
P S Cammerman	-	-
R Last	<b>10,000</b>	10,000
R M Pettigrew	<b>10,000</b>	10,000
S Noar (appointed 3 May 2005)	<b>9,167</b>	-

In the prior year, there were four other directors who all retired in October 2004. The total remuneration paid to each director was as follows: C J Brown £10,833 (including £5,833 as compensation for loss of office), R Lindemann £10,833 (including £5,833 as compensation for loss of office), C W Leach £7,500 (including £2,500 as compensation for loss of office) and J J Seed £10,833 (including £5,833 as compensation for loss of office).

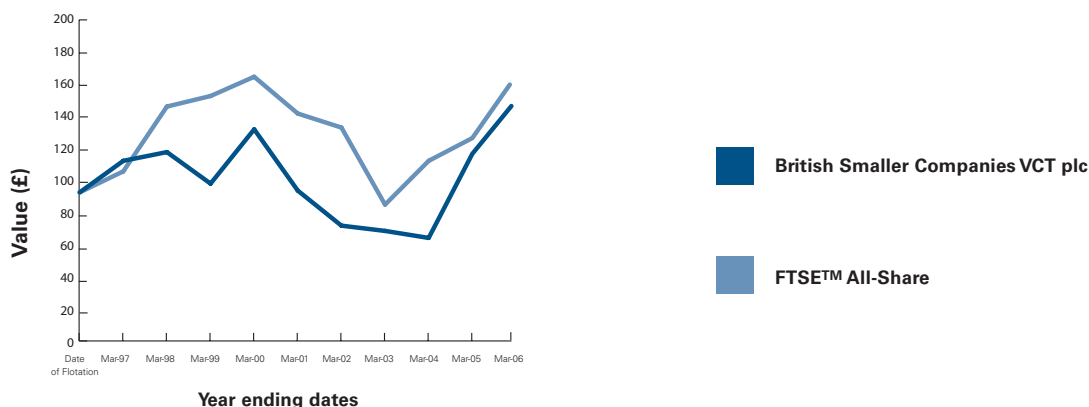
There are no executive directors (2005: none). Mr Cammerman, who is a director of the Company's Investment Adviser, receives no fees for his services as director of the Company. None of Mr Cammerman's remuneration from YFM Private Equity Limited is considered to relate to his role with the Company.

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

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

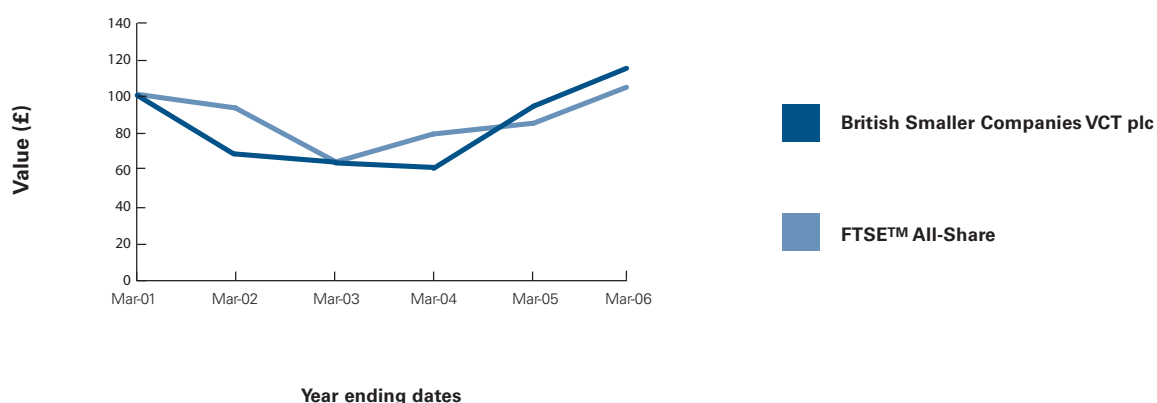
## Performance Graph

The graph below shows a comparison between the Company's total shareholder return compared with the companies in the FTSE™ All-Share Index from the date of flotation to 31 March 2006. 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. The graph looks at the value, by the end of March 2006, 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.

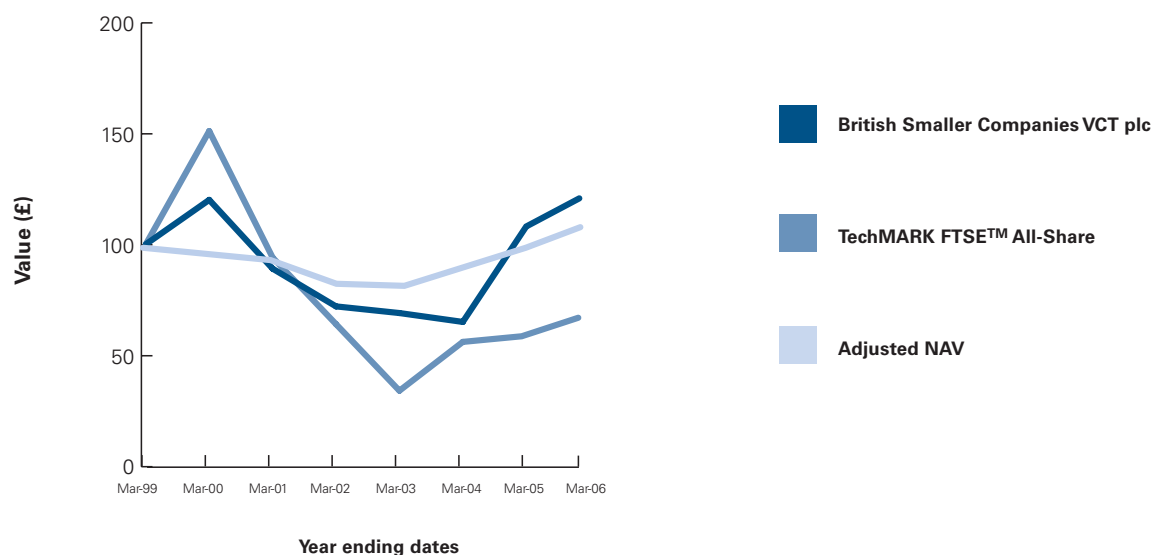


# Directors' Remuneration Report

The graph below shows a comparison between the Company's total return compared with the companies in the FTSE™ All-Share Index over the last 5 years to 31 March 2006. The return from the Company is based on a shareholder receiving basic tax relief on his or her investment, but ignores any capital gains rollover relief. The graph looks at the value, by the end of March 2006, of £100 invested in the Company's shares with the value of £100 invested in the FTSE™ All-Share Index.



Given the Board's intention to invest in a balanced portfolio across a range of industry sectors, particularly in recent years focusing on investing in new innovative businesses which are more technology focused, the directors believe that a comparison with the FTSE™ TechMARK™ All-Share Index since its inception in 1999 may be of additional use to shareholders. A comparison of your Company's net asset value, as adjusted for dividends distributed to date, is also included for information purposes.



Signed on behalf of the Board

Sir Andrew Hugh Smith  
 Chairman  
 30 June 2006

# Independent Auditors' Report

## To the Members of British Smaller Companies VCT plc

We have audited the financial statements of British Smaller Companies VCT plc for the year ended 31 March 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity and the related notes. These 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.

## 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Investment Advisers Review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Investment Advisers Review, the Directors' Report, the 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.



# Independent Auditors' Report

We planned and performed our audit so as to obtain all the information and explanations which 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 2006 and of its profit and cash flows 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.

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

Leeds

30 June 2006

# Income Statement

## For the year ended 31 March 2006

	Notes	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	2005 £000
Income	2	413	38	451	396
Administrative expenses:	3				
Investment advisory fee		(314)	(18)	(332)	(272)
Other expenses		(202)	(13)	(215)	(262)
		(516)	(31)	(547)	(534)
Gain on realisation of investments	7	806	1	807	229
Gains (losses) on investments held at fair value	7	1,477	95	1,572	(136)
<b>Profit (loss) on ordinary activities before taxation</b>		<b>2,180</b>	<b>103</b>	<b>2,283</b>	(45)
Taxation	4	-	-	-	-
Profit (loss) for the year from continuing operations		<b>2,180</b>	<b>103</b>	<b>2,283</b>	(45)
<b>Basic and diluted earnings (loss) per share</b>	6	<b>14.55p</b>	<b>8.38p</b>	<b>13.89p</b>	(0.29)p

### Note

There was no income or expenditure in respect of the C shares for the year ended 31 March 2005. Consequently, the above results for the comparative period relate only to the Ordinary shares.

The accompanying notes are an integral part of this statement.

# Balance Sheet

At 31 March 2006

	Notes	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Ord Shares 2005 £000	C Shares 2005 £000	Total 2005 £000
<b>Assets</b>							
<b>Non-current assets</b>							
Financial assets at fair value through profit or loss	7	10,382	427	10,809	11,045	-	11,045
<b>Current assets</b>							
Trade and other receivables	9	448	10	458	160	-	160
Cash and cash equivalents	10	4,531	864	5,395	1,970	246	2,216
<b>Liabilities</b>		<b>4,979</b>	<b>874</b>	<b>5,853</b>	2,130	246	2,376
<b>Current liabilities</b>							
Trade and other payables	11	(101)	(14)	(115)	(85)	(9)	(94)
<b>Net current assets</b>		<b>4,878</b>	<b>860</b>	<b>5,738</b>	2,045	237	2,282
<b>Net assets</b>		<b>15,260</b>	<b>1,287</b>	<b>16,547</b>	13,090	237	13,327
<b>Shareholders' equity</b>							
Share capital	12	1,566	629	2,195	1,512	125	1,637
Share premium account	13	781	555	1,336	-	112	112
Capital redemption reserve	13	117	-	117	75	-	75
Revaluation reserve	13	-	-	-	7,116	-	7,116
Special reserve	13	3,330	-	3,330	3,661	-	3,661
Retained earnings	13	9,466	103	9,569	726	-	726
<b>Total shareholders' equity</b>		<b>15,260</b>	<b>1,287</b>	<b>16,547</b>	13,090	237	13,327
<b>Net asset value per share</b>		<b>97.5p</b>	<b>102.2p</b>	<b>97.9p</b>	86.6p	95.0p	86.7p

The financial statements on pages 40 to 68 were approved by the Board of directors on 30 June 2006 and were signed on its behalf by

**Sir Andrew Hugh Smith**  
Chairman

The accompanying notes are an integral part of these financial statements.

# Statement of Changes in Shareholders' Equity

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
<b>Balance at 31 March 2004</b>	<b>1,544</b>	<b>-</b>	<b>43</b>	<b>5,039</b>	<b>3,871</b>	<b>1,596</b>	<b>12,093</b>
Valuation gains taken to equity	-	-	-	2,392	-	-	2,392
Gains realised on disposal	-	-	-	(315)	-	315	-
Loss for the year	-	-	-	-	-	(45)	(45)
Total recognised income and expense for the period	-	-	-	2,077	-	270	2,347
Dividends	-	-	-	-	-	(1,140)	(1,140)
Purchase of own shares	(32)	-	32	-	(210)	-	(210)
Issue of C shares	125	112	-	-	-	-	237
<b>Balance at 31 March 2005</b>	<b>1,637</b>	<b>112</b>	<b>75</b>	<b>7,116</b>	<b>3,661</b>	<b>726</b>	<b>13,327</b>
Profit for the year	-	-	-	-	-	2,283	2,283
Transfer of the revaluation reserve on adoption of IAS 39	-	-	-	(7,116)	-	7,116	-
Dividends	-	-	-	-	-	(556)	(556)
Purchase of own shares	(42)	-	42	-	(331)	-	(331)
Issue of C share capital	504	505	-	-	-	-	1,009
Issue costs of C share capital	-	(62)	-	-	-	-	(62)
Issue of Ordinary share capital	90	788	-	-	-	-	878
Issue costs of Ordinary shares	-	(47)	-	-	-	-	(47)
Issue of share capital on DRIS*	6	40	-	-	-	-	46
<b>Balance at 31 March 2006</b>	<b>2,195</b>	<b>1,336</b>	<b>117</b>	<b>-</b>	<b>3,330</b>	<b>9,569</b>	<b>16,547</b>

\*DRIS being the Dividend Re-investment Scheme.

Shareholders' equity as at 31 March 2004 and 2005 has been restated following adoption of IFRS.

The adoption of IFRS, particularly IAS 10 'Events after the balance sheet date', has resulted in the restatement of the retained earnings balance as at 31 March 2004 with dividends of £741,000 being derecognised and recognised in the year ended 31 March 2005 when they were approved and paid. Retained earnings as at 31 March 2004 of £855,000 has been restated to £1,596,000.

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

# Cash Flow Statement

For the year ended 31 March 2006

	Notes	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Ord Shares 2005 £000	C Shares 2005 £000	Total 2005 £000
<b>Net cash (outflow) inflow from operating activities</b>	15	<b>(54)</b>	<b>2</b>	<b>(52)</b>	(212)	-	(212)
<b>Cash flows from investing activities</b>							
Purchase of fixed asset investments	7	<b>(899)</b>	<b>(330)</b>	<b>(1,229)</b>	(401)	-	(401)
Proceeds from sale of fixed asset investments	7	<b>3,518</b>	-	<b>3,518</b>	1,107	-	1,107
<b>Net cash from (used in) investing activities</b>		<b>2,619</b>	<b>(330)</b>	<b>2,289</b>	706	-	706
<b>Cash flows from financing activities</b>							
Issue of C shares		-	<b>1,009</b>	<b>1,009</b>	-	250	250
Costs of C share issue		-	<b>(62)</b>	<b>(62)</b>	-	(4)	(4)
Issue of Ordinary shares		<b>878</b>	-	<b>878</b>	-	-	-
Purchase of own Ordinary shares		<b>(367)</b>	-	<b>(367)</b>	(174)	-	(174)
Dividends paid		<b>(510)</b>	-	<b>(510)</b>	(1,140)	-	(1,140)
<b>Net cash from (used in) financing activities</b>		<b>1</b>	<b>947</b>	<b>948</b>	(1,314)	246	(1,068)
<b>Net cash increase (decrease) in cash and cash equivalents</b>		<b>2,566</b>	<b>619</b>	<b>3,185</b>	(820)	246	(574)
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,970</b>	<b>246</b>	<b>2,216</b>	2,840	-	2,840
Effect of market value changes in cash equivalents		<b>(5)</b>	<b>(1)</b>	<b>(6)</b>	(50)	-	(50)
<b>Cash and cash equivalents at the end of the year</b>		<b>4,531</b>	<b>864</b>	<b>5,395</b>	1,970	246	2,216

The accompanying notes are an integral part of these financial statements.

# Notes to the Financial Statements

## For the year ended 31 March 2006

### 1. Principal Accounting Policies

The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and International Accounting Standards Committee (IASC) as adopted by the European Union and those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

These financial statements are presented in pounds sterling, as this is the principal currency in which the Company's transactions are undertaken and is therefore considered to be the functional currency of the Company.

These are the Company's first annual results prepared in accordance with IFRS. Previous financial statements were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) including the requirements of Schedule 4 of the Companies Act 1985. The Company is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening balance sheet under IFRS. The effective date of transition for the Company is 1 April 2004.

In preparing these financial statements certain accounting and valuation methods previously applied under UK GAAP have been amended to comply with IFRS as follows:

Under IAS 10 'Events after the Balance Sheet Date' dividends are only recorded where an obligation exists at the balance sheet date. Consequently, dividends which the Company proposes after the balance sheet date are no longer accrued for but are required to be disclosed in the notes to the financial statements.

Under IAS 39 'Financial Instruments: Recognition and Measurement', the Company has designated its investments as fair value through profit or loss resulting in a transfer of the revaluation reserve to retained earnings. The Company has taken advantage of the exemption available to it under IFRS 1 'First-time Adoption of International Financial Reporting Standards' not to adopt IAS 39 and IAS 32 'Financial Instruments: Disclosure and Presentation' retrospectively but to adopt them with effect from 1 April 2004. Consequently, prior year comparatives have not been restated.

As required by IFRS 1, reconciliations showing the effects of the changes are set out in note 19.

### Basis of Preparation

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the inclusion of investments at fair value through profit or loss.

### 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.

### Expenses

Expenses are accounted for on an accruals basis.

# Notes to 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 Valuation Guidelines issued in March 2005. A detailed explanation of the valuation policies of the Company is included on pages 19 and 20. Investments are derecognised at the date of disposal.

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Section 842AA of the Income and Corporation Taxes Act (1988), no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises.

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.

## 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.

## Deferred Taxation

Deferred tax is recognised on all timing 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.

# Notes to the Financial Statements

## Dividends Payable

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

## Segmental Reporting

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

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

## Critical Accounting Estimates and Judgments

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 judgment to select a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date.

## 2. Income

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Total 2005 £000
Income from investments:				
- Dividends from unquoted companies	228	-	228	148
- Dividends from AIM quoted companies	23	1	24	27
	<b>251</b>	<b>1</b>	<b>252</b>	175
- Interest on loans to unquoted companies	47	-	47	72
- Fixed interest Government securities	106	37	143	135
Income from investments held at fair value through profit or loss	404	38	442	382
Interest on deposits	9	-	9	14
	<b>413</b>	<b>38</b>	<b>451</b>	396



# Notes to the Financial Statements

## 3. Administrative Expenses

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Total 2005 £000
Investment advisory fee (including irrecoverable VAT):	<b>314</b>	<b>18</b>	<b>332</b>	272
Other expenses:				
Administration fee (including irrecoverable VAT)	<b>49</b>	<b>3</b>	<b>52</b>	50
Directors' remuneration	<b>41</b>	<b>3</b>	<b>44</b>	75
Auditors' remuneration:				
- audit fees	<b>20</b>	<b>1</b>	<b>21</b>	21
- non audit services	<b>8</b>	<b>1</b>	<b>9</b>	9
General expenses	<b>84</b>	<b>5</b>	<b>89</b>	107
	<b>202</b>	<b>13</b>	<b>215</b>	262
	<b>516</b>	<b>31</b>	<b>547</b>	534

During the year the Company obtained tax compliance services and VCT compliance monitoring services from the Company's auditor PricewaterhouseCoopers LLP amounting to £3,000 (2005: £3,000) and £6,000 (2005: £6,000) respectively.

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

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

The total remuneration payable to YFM Private Equity Limited in the year (including VAT) was £384,000 (2005: £322,000). The details of directors' remuneration are set out in the Directors' Remuneration Report on page 36 under the heading "Basic Remuneration".

# Notes to the Financial Statements

## 4. Tax on Profit (Loss) on Ordinary Activities

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Total 2005 £000
Corporation tax payable at 19% (2005: 19%)	-	-	-	-
Profit (loss) on ordinary activities before taxation	<b>2,180</b>	<b>103</b>	<b>2,283</b>	(45)
Profit (loss) on ordinary activities multiplied by standard small company rate of corporation tax in UK of 19% (2005: 19%)	<b>414</b>	<b>20</b>	<b>434</b>	(9)
<b>Effect of:</b>				
UK dividends received	<b>(48)</b>	-	<b>(48)</b>	(33)
Non taxable profits on investments	<b>(434)</b>	<b>(18)</b>	<b>(452)</b>	(17)
Excess management expenses	<b>68</b>	<b>(2)</b>	<b>66</b>	59
Tax on loss on Ordinary activities	-	-	-	-

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

Deferred tax assets of £270,000 (2005: £204,000) in respect of unrelieved management expenses have not been recognised as management do not currently believe that it is more likely than not 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 Section 842AA of the Income and Corporation Taxes Act 1988, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or realisation of investments.

## 5. Dividends

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Total 2005 £000
Interim paid - 1.5p per Ordinary share (2005: 1.5p); paid 10 January 2006	<b>223</b>	-	<b>223</b>	230
Special dividend paid – Nil (2005: 1.1p);	-	-	-	169
Final proposed – 2.2p per Ordinary share (2005: 4.8p); paid 5 August 2005	<b>333</b>	-	<b>333</b>	741
	<b>556</b>	-	<b>556</b>	1,140

The interim dividend paid on 10 January 2006 has been recognised in the year ended 31 March 2006. A final dividend of 3p per Ordinary share and 0.5p per C share is proposed. These dividends have not been recognised in the year ended 31 March 2006 as the obligation did not exist at the balance sheet date.

# Notes to the Financial Statements

## 6. Earnings (loss) per Share

The earnings (loss) per share is based on a net profit from ordinary activities after tax of £2,283,000 (2005: net loss of £45,000) and 16,432,000 (2005: 15,438,000) shares being the weighted average number of shares in issue during the year.

The earnings (loss) per Ordinary share is based on a net profit from ordinary activities after tax of £2,180,000 (2005: net loss of £45,000) and 14,979,000 (2005: 15,343,000) shares being the weighted average number of shares in issue during the year.

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

The Company has no securities in issue that would have a dilutive effect in the year to 31 March 2006 and hence basic and diluted earnings (loss) per share are the same.

## 7. Investments at Fair Value through Profit or Loss

Movements in investment at fair value through profit or loss during the year to 31 March 2006 are summarised as follows:

### Ordinary Share Portfolio

	Unquoted Investments £000	AIM Quoted Investments £000	Total Fixed Asset Investments £000	Fixed Income Securities £000	Total Investments £000
Opening cost	5,894	2,746	<b>8,640</b>	1,738	<b>10,378</b>
Opening unrealised gain (loss)	974	1,431	<b>2,405</b>	(82)	<b>2,323</b>
Opening valuation	6,868	4,177	<b>11,045</b>	1,656	<b>12,701</b>
Additions at cost	292	607	<b>899</b>	2,973	<b>3,872</b>
Disposal proceeds	(3,522)	(328)	<b>(3,850)</b>	(1,396)	<b>(5,246)</b>
Net profit realised on disposal	774	29	<b>803</b>	3	<b>806</b>
Changes in fair value in the year	1,754	(269)	<b>1,485</b>	(8)	<b>1,477</b>
	<b>6,166</b>	<b>4,216</b>	<b>10,382</b>	<b>3,228</b>	<b>13,610</b>
Closing cost	4,598	2,586	<b>7,184</b>	3,234	<b>10,418</b>
Closing unrealised gain (loss)	1,568	1,630	<b>3,198</b>	(6)	<b>3,192</b>
<b>Closing valuation</b>	<b>6,166</b>	<b>4,216</b>	<b>10,382</b>	<b>3,228</b>	<b>13,610</b>

# Notes to the Financial Statements

## C Share Portfolio

	Unquoted Investments £000	AIM Quoted Investments £000	Total Fixed Asset Investments £000	Fixed Income Securities £000	Total Investments £000
Opening cost	-	-	-	-	-
Opening unrealised (loss) gain	-	-	-	-	-
Opening valuation	-	-	-	-	-
Additions at cost	108	222	330	1,105	1,435
Disposal proceeds	-	-	-	(273)	(273)
Net profit realised on disposal	-	-	-	1	1
Changes in fair value in the year	-	97	97	(2)	95
	<b>108</b>	<b>319</b>	<b>427</b>	<b>831</b>	<b>1,258</b>
Closing cost	108	222	330	833	1,163
Closing unrealised gain (loss)	-	97	97	(2)	95
<b>Closing valuation</b>	<b>108</b>	<b>319</b>	<b>427</b>	<b>831</b>	<b>1,258</b>

There have been no provisions made against unquoted investments during the year and there have been no amounts written off such investments during the year.

There have been no individual write downs or provisions during the year which exceeded 5% of the total assets of the Company.

## Total Portfolio

	Unquoted Investments £000	AIM Quoted Investments £000	Total Fixed Asset Investments £000	Fixed Income Securities £000	Total Investments £000
Opening cost	5,894	2,746	8,640	1,738	10,378
Opening unrealised gain (loss)	974	1,431	2,405	(82)	2,323
Opening valuation	6,868	4,177	11,045	1,656	12,701
Additions at cost	400	829	1,229	4,078	5,307
Disposal proceeds	(3,282)	(328)	(3,610)	(1,669)	(5,279)
Net profit realised on disposal	774	29	803	4	807
Changes in fair value in the year	1,514	(172)	1,342	(10)	1,332
	<b>6,274</b>	<b>4,535</b>	<b>10,809</b>	<b>4,059</b>	<b>14,868</b>
Closing cost	4,706	2,808	7,514	4,067	11,581
Closing unrealised gain (loss)	1,568	1,727	3,295	(8)	3,287
<b>Closing valuation</b>	<b>6,274</b>	<b>4,535</b>	<b>10,809</b>	<b>4,059</b>	<b>14,868</b>

# Notes to the Financial Statements

There were no provisions made against unquoted investments during the year and no write offs. Amounts written off such investments amounted to £Nil in 2005 and 2004.

There have been no individual write downs or provisions during the year which exceeded 5% of the total assets of the Company (2005: 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.

The fair value at initial measurement, cost and carrying value of investments, all of which are registered in England and Wales except where noted, are detailed as follows:

## Ordinary Share Fund

### Unquoted Venture Capital Investments

	Cost £000	2006 Valuation £000	%	Cost £000	2005 Valuation £000	%
<b>Baynflax Limited</b>						
(In Administrative Receivership)						
'B' Ordinary shares of £1 each	100	-		100	-	
12% Debenture loan	400	-		400	-	
	<b>500</b>	<b>-</b>	<b>-</b>	<b>500</b>	<b>-</b>	<b>-</b>
<b>Cambridge Cognition Limited</b>						
Ordinary shares of £1 each	325	195	1.3	325	81	0.6
<b>Denison Mayes Group Limited</b>						
15% Debenture loan	100	-	-	100	-	-
<b>Eagle Marketing Limited</b>						
(In Administrative Receivership)						
Ordinary shares of £1 each	200	-		200	-	
10% Cumulative Redeemable Preference shares of £1 each	800	-		800	-	
	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>1,000</b>	<b>-</b>	<b>-</b>
<b>Freshroast Coffee Co. Limited</b>						
Ordinary shares of £1 each	5	6		5	6	
Debenture loan (4% over bank base rate)	-	-		15	15	
	<b>5</b>	<b>6</b>	<b>-</b>	<b>20</b>	<b>21</b>	<b>0.2</b>
<b>GOoutdoors Limited</b>						
'A' Ordinary shares of £1 each	155	1,677	11.0	155	1,642	12.5

# Notes to the Financial Statements

	Cost £000	2006 £000	Valuation %	Cost £000	2005 £000	Valuation %
<b>Harlands of Hull Limited</b>						
'B' Ordinary shares of £1 each	-	-		50	967	
Cumulative Redeemable Preference shares of £1 each	-	-		300	300	
Convertible Unsecured loan stock	-	-		150	150	
	-	-	-	500	1,417	10.8
<b>Images at Work Limited</b>						
Ordinary shares of £1 each	205	488		205	337	
10.5% Cumulative Redeemable Preference Shares of £1 each	110	110		140	140	
	315	598	3.9	345	477	3.7
<b>Imerge Limited</b>						
'A' Ordinary shares of 1p each	-	-		250		
Convertible Unsecured Loan Stock	-	-		168		
	-	-	-	418	-	-
<b>International Resources Group Limited</b>						
Ordinary shares of 1p each	-	-	-	47	820	6.3
<b>The JDA Group Limited</b>						
Ordinary shares	30	629	4.1	30	496	3.8
<b>Morgan Machine Knife Limited</b> (In Administrative Receivership)						
Ordinary shares of £1 each	90	-		90	-	
10% 'A' Cumulative Redeemable Preference shares of £1 each	228	-		228	-	
	318	-	-	318	-	-
<b>Primal Pictures Limited</b>						
Ordinary shares of 50p each	400	205		400	205	
10% Cumulative Redeemable Preference shares of £1 each	100	100		100	100	
	500	305	2.0	500	305	2.3
<b>RMF Engineering Limited</b>						
Ordinary shares of £1 each	90	35	0.3	90	-	-

# Notes to the Financial Statements

	Cost £000	2006 £000	Valuation %	Cost £000	2005 £000	Valuation %
<b>Sheet Piling (UK) Limited</b>						
'B' Ordinary shares of £1 each	110	1,378		110	849	
12% Debenture loan	-	-		195	195	
	<b>110</b>	<b>1,378</b>	<b>9.0</b>	305	1,044	8.0
<b>Secure Mail Services Limited</b>						
'A' Ordinary shares of 10p each	43	736		43	217	
Preferred Ordinary shares of 10p each	30	30		30	30	
8% Unsecured loan stock	285	285		318	318	
	<b>358</b>	<b>1,051</b>	<b>6.9</b>	391	565	4.3
<b>Tamesis Limited</b>						
Ordinary shares of 0.04p each	-	-	-	350	-	-
<b>Tekton Group Limited</b>						
A Ordinary shares of £0.04 each	29	29		-	-	
A Redeemable Preference shares of £1 each	121	121		-	-	
B Preference shares of £1 each	4	4		-	-	
Fixed Rate Secured loan stock	138	138		-	-	
	<b>292</b>	<b>292</b>	<b>1.9</b>	-	-	-
<b>Weston Antennas Limited</b> (in Receivership)						
'A' Ordinary shares of £1 each	300	-		300	-	
9% Cumulative Redeemable Preference shares of £1 each	200	-		200	-	
	<b>500</b>	-	-	500	-	-
Total excluding AIM quoted investments	<b>4,598</b>	<b>6,166</b>	<b>40.4</b>	5,894	6,868	52.5

# Notes to the Financial Statements

## Ordinary Shares held in AIM Quoted Companies

	2006			2005		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
Belgravium Technologies plc	146	183	1.2	-	-	-
Bond International Software plc	-	-	-	53	78	0.6
Cardpoint plc	119	222	1.5	119	306	2.3
Connaught plc	112	720	4.7	108	428	3.3
Cozart plc	451	1,091	7.1	500	1,772	13.5
Dowlis Corporate Solutions plc	219	311	2.0	-	-	-
First Artist Corporation plc	-	-	-	300	37	0.3
Landround plc	283	66	0.4	283	499	3.8
Mattioli Woods plc	238	375	2.5	-	-	-
Oasis Healthcare plc	392	179	1.2	392	119	0.9
SBS Group plc	100	-	-	100	-	-
Straight plc	301	676	4.4	301	574	4.4
Tikit Group plc	225	393	2.6	225	354	2.7
Warthog plc	-	-	-	365	10	0.1
<b>Total AIM quoted investments</b>	<b>2,586</b>	<b>4,216</b>	<b>27.6</b>	<b>2,746</b>	<b>4,177</b>	<b>31.9</b>
<b>Total venture capital investments in</b>						
<b>Ordinary share portfolio</b>	<b>7,184</b>	<b>10,382</b>	<b>68.0</b>	<b>8,640</b>	<b>11,045</b>	<b>84.4</b>

## Cash Equivalents - Government Stocks

	2006			2005		
	Cost £000	Valuation £000	%	Cost £000	Valuation £000	%
9.5% Conversion stock 2005	-	-	-	989	902	6.9
4.5% Treasury stock 2007	790	790	5.2	-	-	-
5% Treasury stock 2008	249	249	1.6	-	-	-
4% Treasury stock 2009	2,048	2,043	13.4	749	754	5.7
5.5% Treasury stock 2012	147	146	1.0	-	-	-
<b>Total Government stocks</b>	<b>3,234</b>	<b>3,228</b>	<b>21.2</b>	<b>1,738</b>	<b>1,656</b>	<b>12.6</b>
<b>Total financial asset investments</b>	<b>10,418</b>	<b>13,610</b>	<b>89.2</b>	<b>10,378</b>	<b>12,701</b>	<b>97.0</b>
Cash		1,303	8.5		314	2.4
Other net current assets		347	2.3		75	0.6
<b>Shareholders' equity</b>		<b>15,260</b>	<b>100.0</b>		<b>13,090</b>	<b>100.0</b>



# Notes to the Financial Statements

## C Share Fund

### Unquoted Venture Capital Investments

	Cost £000	2006 £000	Valuation %	Cost £000	2005 £000	Valuation %
<b>Tekton Group Limited</b>						
A Ordinary shares of £0.04 each	11	11		-	-	
A Redeemable Preference shares of £1 each	45	45		-	-	
B Preference shares of £1 each	1	1		-	-	
Fixed Rate Secured loan stock	51	51		-	-	
Total excluding AIM quoted investments	108	108	8.4	-	-	-

### Ordinary shares held in AIM quoted companies

Belgravium Technologies plc	54	67	5.2	-	-	-
Dowllis Corporate Solutions plc	81	114	8.9	-	-	-
Mattioli Woods plc	87	138	10.7	-	-	-
Total AIM quoted investments	222	319	24.8	-	-	-
<b>Total venture capital investments</b>	<b>330</b>	<b>427</b>	<b>33.2</b>	-	-	-

### Cash equivalents - Government stocks

5% Treasury stock 2008	428	426	33.1	-	-	-
4% Treasury stock 2009	405	405	31.5	-	-	-
Total Government stocks	833	831	64.6	-	-	-
Total financial asset investments	1,163	1,258	97.8	-	-	-
Cash		33	2.5		246	103.8
Other net current assets		(4)	(0.3)		(9)	(3.8)
Shareholders' equity		1,287	100.0		237	100.0

# Notes to the Financial Statements

## Significant Interests

At 31 March 2006 the Company held a significant holding of at least 20% of the issued Ordinary share capital, either individually or alongside commonly managed funds, in the following companies, all of which are registered in England and Wales:

Company and principal activity	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Freshroast Coffee Co. Limited (processes, packages and markets coffee, tea and related vending ingredients)	5,271 Ordinary	13%	13%
RMF Engineering Limited (design and fabrication from specialist metals)	40,000 Ordinary	25%	-
GOoutdoors Limited (retailer of outdoor clothing and accessories)	35,992 Ordinary	23%	-
Images at Work Limited (supplies and manages corporate clothing contracts)	75,000 Ordinary 110,000 Preference	33% 100%	- -
Sheet Piling (UK) Limited (specialist civil engineering service)	32,659 Ordinary	36%	-
Primal Pictures Limited (production of anatomical CD ROMs)	430,320 Ordinary 300,000 Preference	4% 13%	17% 26%

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

YFM Private Equity Limited acts as Investment Adviser to certain other funds under management namely British Smaller Technology Companies VCT 2 plc, Baring English Growth Fund (North) Limited Partnership, the Yorkshire Fund Limited Partnership, the North West Business Investment Scheme and Yorkshire Enterprise Finance Limited, which have also invested in some of the companies within the current portfolio of this Company.

# Notes to the Financial Statements

Details of these investments are summarised below. The amounts shown below are the net cost of investments as at 31 March 2006.

	British Smaller Technology Companies VCT 2 plc £000	Baring English Growth Fund (North) LP £000	The Yorkshire Fund LP £000	North West Business Investment Scheme £000	Yorkshire Enterprise Finance Limited £000	Total £000	British Smaller Companies VCT plc £000
Cambridge Cognition Limited	240	-	-	-	-	240	325
Cozart plc	1,519	-	-	-	-	1,519	451
Freshroast Coffee Co. Limited	-	-	5	-	-	5	5
Primal Pictures Limited	961	-	-	-	195	1,156	500
Secure Mail Services Limited	-	1,869	-	-	-	1,869	358
Tekton Group Limited	100	-	-	200	-	300	400
Dowlis Corporate Solutions plc	-	-	-	100	-	100	300

## 8. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used. All financial assets are held in Sterling, hence there is no foreign currency exchange rate exposure. The investments are valued in accordance with the policy stated on pages 19 and 20, therefore, the directors consider all assets to be carried at a valuation that equates to fair value.

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

At 31 March 2006 and 31 March 2005, the financial assets, by value, comprised:

	2006		2005	
	£000	%	£000	%
<b>Venture capital investments</b>				
Ordinary shares	<b>9,924</b>	<b>60.0</b>	9,923	74.4
Fixed Interest Preference shares	<b>412</b>	<b>2.5</b>	540	4.0
Debenture loan stock	<b>473</b>	<b>2.8</b>	582	4.4
	<b>10,809</b>	<b>65.3</b>	11,045	82.8
Fixed interest Government Securities	<b>4,059</b>	<b>24.5</b>	1,656	12.4
Cash	<b>1,336</b>	<b>8.1</b>	560	4.2
Other financial assets	<b>458</b>	<b>2.8</b>	160	1.2
Other financial liabilities	<b>(115)</b>	<b>(0.7)</b>	(85)	(0.6)
	<b>16,547</b>	<b>100.0</b>	13,327	100.0

# Notes to the Financial Statements

At 31 March 2006 and 31 March 2005, the financial assets, by value, and the analysis by interest rate risk, comprised:

	2006		2005	
	£000	%	£000	%
<b>Venture capital investments</b>				
Fixed interest investment assets	<b>600</b>	<b>3.7</b>	885	6.7
Floating rate investment assets	<b>285</b>	<b>1.8</b>	237	1.8
Ordinary shares	<b>9,924</b>	<b>61.2</b>	9,923	74.8
	<b>10,809</b>	<b>66.7</b>	11,045	83.3
Fixed interest Government Securities	<b>4,059</b>	<b>25.1</b>	1,656	12.5
Cash	<b>1,336</b>	<b>8.2</b>	560	4.2
	<b>16,204</b>	<b>100.0</b>	13,261	100.0

The weighted average interest rate on fixed rate financial assets in venture capital investments held at 31 March 2006 was 5.7% (2005: 8.2%) The weighted average period for which these rates applied was 2 years, 10 months (2005: 1 year, 8 months). For all financial assets, including investments in Government stocks, the weighted average interest rate on fixed rate assets was 4.5% (2005: 7.3%) with a weighted average period of 2 years 6 months (2005: 7 months).

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

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

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

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

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

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

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

# Notes to the Financial Statements

## 9. Trade and Other Receivables

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Total 2005 £000
<b>Amounts receivable within one year:</b>				
Prepayments and accrued income	116	10	126	160
Deferred consideration	240	-	240	-
Proceeds from sale of investments	92	-	92	-
	<b>448</b>	<b>10</b>	<b>458</b>	<b>160</b>

None of the above amounts in the prior year comparatives relate to the C shares.

## 10. Cash and Cash Equivalents

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Ord shares 2005 £000	C shares 2005 £000	Total 2005 £000
Cash at bank	1,303	33	1,336	314	246	560
Cash equivalents – fixed interest quoted investments	3,228	831	4,059	1,656	-	1,656
	<b>4,531</b>	<b>864</b>	<b>5,395</b>	<b>1,970</b>	<b>246</b>	<b>2,216</b>

## 11. Trade and Other Payables

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Ord shares 2005 £000	C shares 2005 £000	Total 2005 £000
<b>Amounts payable within one year:</b>						
Accrued expenses	54	5	59	49	-	49
Amounts payable on purchase of own shares	-	-	-	36	-	36
Accrued expenses of share issues	47	9	56	-	9	9
	<b>101</b>	<b>14</b>	<b>115</b>	<b>85</b>	<b>9</b>	<b>94</b>

## 12. Called-up Share Capital

	2006		2005	
	Authorised £000	Allotted Called-up and fully paid £000	Authorised £000	Allotted Called-up and fully paid £000
Ordinary shares of 10p				
Authorised: 18,000,000 (2005: 18,000,000)	1,800		1,800	
Issued: 15,654,160 (2005: 15,117,838)		1,566		1,512
C shares of 50p each				
Authorised: 25,000,000 (2005: 25,000,000)	12,500		12,500	
Issued: 1,258,676 (2005: 249,575)		629		125
<b>Total</b>				
Authorised:	<b>14,300</b>		<b>14,300</b>	
Issued:		<b>2,195</b>		<b>1,637</b>

# Notes to the Financial Statements

The movement in the year was as follows:

	Date	Number of shares	Share Capital £000
Ordinary shares as at 1 April 2005		15,117,838	1,512
Purchase of own shares	23 June 2005	(100,000)	(10)
Purchase of own shares	15 August 2005	(100,000)	(10)
Issue of shares under Dividend Reinvestment Scheme	16 August 2005	27,625	3
Purchase of own shares	29 September 2005	(50,000)	(5)
Issue of shares under Dividend Reinvestment Scheme	10 January 2006	32,582	3
Purchase of own shares	14 February 2006	(170,000)	(17)
Issues of shares under Top Up	22 March 2006	896,115	90
<b>Ordinary shares at 31 March 2006</b>		<b>15,654,160</b>	<b>1,566</b>
C shares as at 1 April 2005		249,575	125
C shares issued	5 April 2005	907,276	453
	31 May 2005	89,625	45
	23 June 2005	12,200	6
<b>C shares at 31 March 2006</b>		<b>1,258,676</b>	<b>629</b>
<b>Total as at 31 March 2006</b>		<b>16,912,836</b>	<b>2,195</b>

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

Under the Company's Dividend Reinvestment Scheme shareholders can elect to receive dividends in the form of new shares rather than cash. Dividend reinvestment enables shareholders to increase their total holding in the Company without incurring dealing costs, issue costs or stamp duty. During the year to 31 March 2006 a total of 60,207 shares were subscribed by shareholders at an average price of 76.7p per share (2005: Nil). Following the changes made in the recent budget funds raised from the Dividend Reinvestment Scheme will be required to meet the new gross assets limits. The Scheme has been suspended pending further clarification from HM Revenue & Customs.

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

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

# Notes to the Financial Statements

After conversion the surplus capital and assets shall be applied as follows:

- a) firstly, if there are deferred shares in issue (deferred shares may be created upon conversion of the C shares in accordance with the formula), in paying to the deferred shareholders 1p in respect of every 1,000,000 deferred shares (or part thereof) of which they are respectively the holders; and
- b) secondly, the surplus shall be divided amongst the Ordinary shareholders pro rata according to the nominal capital paid up on their holdings of Ordinary shares.

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

## 13. Changes in Shareholders' Equity

<b>Ordinary Shares</b>	<b>Share capital £000</b>	<b>Share premium account £000</b>	<b>Capital redemption reserve £000</b>	<b>Revaluation reserve £000</b>	<b>Special reserve £000</b>	<b>Retained earnings £000</b>	<b>Total equity £000</b>
Balance at 31 March 2004	1,544	-	43	5,039	3,871	1,596	12,093
Valuation gains taken to equity	-	-	-	2,392	-	-	2,392
Gains realised on disposal	-	-	-	(315)	-	315	-
Loss for the year	-	-	-	-	-	(45)	(45)
Total recognised income and expense for the period	-	-	-	2,077	-	270	2,347
Dividends	-	-	-	-	-	(1,140)	(1,140)
Purchase of own shares	(32)	-	32	-	(210)	-	(210)
<b>Balance at 31 March 2005</b>	<b>1,512</b>	<b>-</b>	<b>75</b>	<b>7,116</b>	<b>3,661</b>	<b>726</b>	<b>13,090</b>
Profit for the year	-	-	-	-	-	2,180	2,180
Transfer of the revaluation reserve on adoption of IAS39	-	-	-	(7,116)	-	7,116	-
Dividends	-	-	-	-	-	(556)	(556)
Purchase of own shares	(42)	-	42	-	(331)	-	(331)
Issue of Ordinary share capital	90	788	-	-	-	-	878
Issue costs of Ordinary shares	-	(47)	-	-	-	-	(47)
Issue of share on DRIS*	6	40	-	-	-	-	46
<b>Balance at 31 March 2006</b>	<b>1,566</b>	<b>781</b>	<b>117</b>	<b>-</b>	<b>3,330</b>	<b>9,466</b>	<b>15,260</b>

\*DRIS being the Dividend Re-investment Scheme.

Shareholders' equity as at 31 March 2004 and 2005 has been restated following adoption of IFRS.

# Notes to the Financial Statements

The adoption of IFRS, particularly IAS 10 'Events after the balance sheet date', has resulted in the restatement of the retained earnings balance as at 31 March 2004 with dividends of £741,000 being derecognised and recognised in the year ended 31 March 2005 when they were approved and paid. Retained earnings as at 31 March 2004 of £855,000 has been restated to £1,596,000.

## C Shares

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Special reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2004	-	-	-	-	-	-	-
Issue of C shares	125	112	-	-	-	-	237
Balance at 31 March 2005	125	112	-	-	-	-	237
Profit for the year	-	-	-	-	-	103	103
Issue of C share capital	504	505	-	-	-	-	1,009
Issue costs of C share capital		(62)	-	-	-	-	(62)
<b>Balance at 31 March 2006</b>	<b>629</b>	<b>555</b>	-	-	-	<b>103</b>	<b>1,287</b>

## 14. Net Asset Value per Share

The net asset value per share is calculated on attributable assets of £16,547,000 (2005: £13,327,000) and 16,912,836 (2005: 15,367,413) shares in issue at the year end.

The net asset value per Ordinary share is calculated on attributable assets of £15,260,000 (2005: £13,090,000) and 15,654,160 (2005: 15,117,838) shares in issue at the year end.

The net asset value per C share is calculated on attributable assets of £1,287,000 (2005: £237,000) and 1,258,676 (2005: 249,575) shares in issue at the year end.

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



# Notes to the Financial Statements

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

	Ord shares 2006 £000	C shares 2006 £000	Total 2006 £000	Total 2005 £000
Profit (loss) on ordinary activities before tax	2,180	103	2,283	(45)
Decrease (increase) in prepayments and accrued income	44	(10)	34	(59)
Increase (decrease) in accruals	5	5	10	(15)
Profit on realisation of investment in the year	(806)	(1)	(807)	(229)
Impairment of investment in the year	(1,477)	(95)	(1,572)	136
	<b>(54)</b>	<b>2</b>	<b>(52)</b>	<b>(212)</b>

None of the above amounts in the prior year comparatives relate to the C shares.

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

	31 March 2005 £000	Cash flow £000	Other non cash changes £000	31 March 2006 £000
Cash	560	776	-	1,336
Cash equivalents – fixed interest quoted investments	1,656	2,404	(1)	4,059
	2,216	3,180	(1)	5,395

## 17. Financial Commitments

There have been no investments approved by the Board of Directors at 31 March 2006 that have not been reflected in these accounts (2005: none). Since the year end no further investments have been approved by the Board (2005: none).

# Notes to the Financial Statements

## 18. Related Party Transactions

Mr Cammerman is executive chairman of YFM Private Equity Limited, the Investment Adviser to the Company, and a wholly owned subsidiary of YFM Group Limited which held 3.4% of the issued share capital of British Smaller Companies VCT plc at 31 March 2006 (2005: 3.5%). Mr Cammerman is also director of YFM Group (Holdings) Limited, the ultimate parent company of YFM Private Equity Limited, in which he has a beneficial shareholding.

Up to the date of disposal, Mr Last was a non-executive director of Tamesis Limited. The appointment was made pursuant to an agreement following the investment made in that company. During the year he received remuneration of £3,000 (2005: £5,000) from Tamesis Limited in respect of his services. The investment in Tamesis was realised through the acquisition of that company by Patsystems plc. Mr Last, a director of Patsystems plc played no part in any Board discussions about the transaction and had no involvement in the due diligence process.

Mr Noar is a non-executive director of Cozart plc. The appointment was made pursuant to an agreement following the investment made in that company. During the year he received remuneration of £20,000 (2005: £12,000) from Cozart plc in respect of his services.

Under the Subscription Rights Agreement dated 28 February 1996 (assigned as described on page 35), 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 period to April 2004, calculated on a total return basis.

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

# Notes to the Financial Statements

## 19. Reconciliation of Net Assets and Profit under UK GAAP to IFRS

The Company reported under UK GAAP in its previously published financial statements for the year ended 31 March 2005. The analysis below shows a reconciliation of net assets, profit and cash flows as reported under UK GAAP as at 31 March 2005 and for the year then ended to the revised net assets, profit and cash flow under IFRS as reported in these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the date of transition date for the Company, being 1 April 2004.

### (a) Reconciliation of Equity at 1 April 2004 (Date of Transition to IFRS)

	Previously reported UK GAAP £000	Effect of transition to IFRS £000	Reclassifications £000	Restated IFRS £000
<b>Assets</b>				
<b>Non-current assets</b>				
Investments at fair value through profit or loss	9,216	-	-	9,216
<b>Current assets</b>				
Trade and other receivables	101	-	-	101
Investments	2,656	-	(2,656)	-
Cash	184	-	(184)	-
Cash and cash equivalents	-	-	2,840	2,840
	2,941	-	-	2,941
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	(805)	741	-	(64)
<b>Net current assets</b>	2,136	741	-	2,877
<b>Net assets</b>	<b>11,352</b>	<b>741</b>	<b>-</b>	<b>12,093</b>
Shareholders' equity				
Share capital	1,544	-	-	1,544
Capital redemption reserve	43	-	-	43
Revaluation reserve	5,039	-	-	5,039
Special reserve	3,871	-	-	3,871
Retained earnings	855	741	-	1,596
<b>Total shareholders' equity</b>	<b>11,352</b>	<b>741</b>	<b>-</b>	<b>12,093</b>
<b>Net asset value per share</b>	<b>73.5p</b>	<b>4.8p</b>	<b>-</b>	<b>78.3p</b>

The adoption of IFRS resulted in no adjustment to the 1 April 2004 balances.

Under IFRS liquid fund investments are now classified as cash equivalents; cash and cash equivalents being shown together on the face of the Balance Sheet.

No provision has been made for the final dividend for the year ended 31 March 2004 of £741,000. Under IFRS, this dividend is not recognised until it is declared.

# Notes to the Financial Statements

## (b) Reconciliation of Equity as at 31 March 2005

	Previously reported UK GAAP £000	Effect of transition to IFRS £000	Reclassifications £000	Restated IFRS £000
<b>Assets</b>				
<b>Non-current assets</b>				
Investments at fair value through profit or loss	11,045	-	-	11,045
<b>Current assets</b>				
Trade and other receivables	160	-	-	160
Investments	1,656	-	(1,656)	-
Cash	560	-	(560)	-
Cash and cash equivalents	-	-	2,216	2,216
	2,376	-	-	2,376
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	(427)	333	-	(94)
<b>Net current assets</b>	1,949	333	-	2,282
<b>Net assets</b>	<b>12,994</b>	<b>333</b>	-	<b>13,327</b>
<b>Shareholders' equity</b>				
Share capital	1,637	-	-	1,637
Share premium account	112	-	-	112
Capital redemption reserve	75	-	-	75
Revaluation reserve	7,116	-	-	7,116
Special reserve	3,661	-	-	3,661
Retained earnings	393	333	-	726
<b>Total shareholders' equity</b>	<b>12,994</b>	<b>333</b>	-	<b>13,327</b>
<b>Net asset value per share</b>	<b>84.6p</b>	<b>2.1p</b>	-	<b>86.7p</b>

No provision has been made for the final dividend for the year ended 31 March 2005 of £333,000. Under IFRS, this dividend is not recognised until it is declared.

Under IFRS liquid fund investments are now classified as cash equivalents; cash and cash equivalents being shown together on the face of the Balance Sheet.

# Notes to the Financial Statements

## (c) Reconciliation of Income Statement for the year ended 31 March 2005

	Previously reported UK GAAP £000	Effect of transition to IFRS £000	Restated IFRS £000
Income	396	-	396
Administrative expenses:			
Investment advisory fee	(272)	-	(272)
Other expenses	(262)	-	(262)
	(534)	-	(534)
Gain on realisation of investments	229	-	229
Losses on investments held at fair value	(136)	-	(136)
<b>Loss on ordinary activities before taxation</b>	<b>(45)</b>	-	<b>(45)</b>
Taxation	-	-	-
<b>Loss for the year from continuing operations</b>	<b>(45)</b>	-	<b>(45)</b>
Dividends	(732)	732	-
<b>Loss for the year</b>	<b>(777)</b>	<b>732</b>	<b>(45)</b>
<b>Loss per share basic and diluted</b>	<b>(0.29)p</b>	-	<b>(0.29)p</b>

No provision has been made for the final dividend for the year ended 31 March 2005 of £333,000. Under IFRS, this dividend is not recognised until it is declared.

Under IFRS dividends are not presented on the face of the income statement but are taken direct to reserves. Dividends recognised of £169,000 and £230,000 have been presented in accordance with IFRS.

# Notes to the Financial Statements

## (d) Reconciliation of Summarised Cash Flow for the year ended 31 March 2005

	Previously reported UK GAAP £000	Effect of transition to IFRS £000	Restated IFRS £000
<b>Net cash used in operating activities</b>	(212)	-	(212)
<b>Net cash from investing activities</b>	706	-	706
<b>Equity dividends paid</b>	(1,140)	1,140	-
<b>Net cash from management of liquid resources</b>	950	(950)	-
<b>Net cash from (used in) financing activities</b>	72	(1,140)	(1,068)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>376</b>	<b>(950)</b>	<b>(574)</b>
<b>Cash and cash equivalents at beginning of the year</b>		2,840	2,840
Effect of market value changes in cash equivalents		(50)	(50)
<b>Cash and cash equivalents at the end of the year</b>			<b>2,216</b>

Under IFRS, investments in fixed income securities are classified as cash equivalents as they meet the definition of short-term highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of change in value. A cash flow presented under IFRS reconciles the movement in cash and cash equivalents and includes market value changes in cash and cash equivalents.

Under IFRS dividends paid are shown as a cost of financing.

# Notice of the Annual General Meeting

**No: 3134749**

## **BRITISH SMALLER COMPANIES VCT plc**

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 23 Berkeley Square, London, W1J 6HE, on 1 August 2006 at 11.40 am for the following purposes:

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

### **As Ordinary Business**

#### **ORDINARY RESOLUTIONS**

- (1) THAT the Annual Report and accounts for the year ended 31 March 2006 be received.
- (2) THAT a final dividend for the year to 31 March 2006 of 3.0p per Ordinary share be approved.
- (3) THAT a final dividend for the year to 31 March 2006 of 0.5p per C share be approved.
- (4) THAT the Directors' Remuneration Report be approved.
- (5) THAT Sir Andrew Hugh Smith be re-elected as a director.
- (6) THAT Mr P Cammerman be re-elected as a director.
- (7) THAT Mr R Last be re-elected as a director.
- (8) THAT Mr R Pettigrew be re-elected as a director.
- (9) THAT PricewaterhouseCoopers LLP be re-appointed as independent auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to determine their remuneration.

### **As Special Business**

#### **SPECIAL RESOLUTIONS**

- (1) THAT In substitution for any existing power under Section 95 of the Companies Act ("the Act"), but without prejudice to the exercise of any such power prior to the date hereof, the directors be and are hereby empowered, to allot equity securities (within the meaning of Section 94(2) to Section 94(3A) of the Act) for cash pursuant to the authority given in accordance with section 80 of the Act granted on 7 January 2005 as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall expire on the date falling 15 months from the date after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting) except that the Company may make offers or agreements which would or might require equity securities to be allotted after such 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 pursuant to Section 95 of the Act; and

1.1 shall be limited to the allotment of equity securities in connection with:

- 1.1.1 an issue in favour of the holders of Ordinary shares and C shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of Ordinary shares and C shares (respectively), but subject to such exclusions and other arrangements that the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of a regulatory body or stock exchange;
- 1.1.2 the Subscription Rights Agreement dated 28 February 1996 made between the Company and YFM Private Equity Limited;
- 1.1.3 the Company's Dividend Reinvestment Scheme (as described at page 60 of the Report and Accounts); and
- 1.1.4 the allotment of equity securities for cash otherwise than pursuant to paragraph(s) 1.1.1, 1.1.2 and 1.1.3 up to an aggregate nominal amount equal to 10 per cent. of the issued share capital of the Company as at 31 May 2006;

# Notice of the Annual General Meeting

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority given in accordance with section 80 of the Act granted on 7 January 2005" were omitted.

- (2) THAT in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of C shares of 50p and Ordinary shares of 10p in the capital of the Company provided that:
- 2.1 the maximum aggregate number of Ordinary shares authorised to be purchased is 2,341,642 being 14.99% of issued Ordinary shares as at 31 May 2006;
  - 2.2 the maximum aggregate number of C shares authorised to be purchased is 188,676 being 14.99% of the issued C shares as at 31 May 2006;
  - 2.3 the maximum price which may be paid for an Ordinary share or a C share is an amount equal to maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
  - 2.4 the minimum price which may be paid for an Ordinary share or a C share is their respective nominal value;
  - 2.5 this authority shall take effect from 1 August 2006 and shall expire on 31 January 2008; and
  - 2.6 the Company may make a contract or contracts to purchase Ordinary shares or C 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 and C shares in pursuance of any such contract or contracts.

## BY ORDER OF THE BOARD

**J E P Gervasio**

**Secretary**

30 June 2006

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 or her. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of appointment for holding the Meeting.
- (3) In accordance with Regulation 41 of The Uncertificated Securities Regulation 2001, only those members entered on the Company's register of members not later than 11.40 am on 30 July 2006 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.
- (4) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person at the Meeting if he or she wishes to do so.
- (5) Biographical details concerning the four directors retiring and offering themselves for re-election can be found on page 30 of the Annual Report.



## British Smaller Companies VCT plc Form of Proxy

To be used at the Annual General Meeting of the Company  
to be held at 23 Berkeley Square, London, W1J 6HE on 1 August 2006 at 11.40 a.m.

I/We ..... being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Meeting or (see note a) ..... of ..... as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 1 August 2006 at 11.40 a.m. and at any adjournment thereof.

My/our proxy is to vote as indicated below.

### ORDINARY RESOLUTIONS

	FOR	AGAINST
1. To receive the Directors' Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a final dividend on the Ordinary shares	<input type="checkbox"/>	<input type="checkbox"/>
3. To declare a final dividend on the C shares	<input type="checkbox"/>	<input type="checkbox"/>
4. To approve the Director's Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as a director Sir Andrew Hugh Smith	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect as a director Mr P Cammerman	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-elect as a director Mr R Last	<input type="checkbox"/>	<input type="checkbox"/>
8. To re-elect as a director Mr R Pettigrew	<input type="checkbox"/>	<input type="checkbox"/>
9. To reappoint PricewaterhouseCoopers LLP as Independent auditors	<input type="checkbox"/>	<input type="checkbox"/>

### SPECIAL RESOLUTIONS

1. To disapply pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>
2. To authorise the Company to make market purchases of its own shares	<input type="checkbox"/>	<input type="checkbox"/>

Signature..... Dated .....2006

#### NOTES

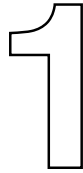
- (a) If you wish to appoint a proxy or proxies other than the Chairman of the Meeting please insert that person's name and address and delete (initialing the deletion) "the Chairman of the Meeting or". A proxy need not be a Member of the Company. You may attend and vote at the Meeting instead of any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



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

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# Financial Summary

	Year ended 31 March 2006	Year ended 31 March 2005	Year ended 31 March 2004	Year ended 31 March 2003	Year ended 31 March 2002
<b>Ordinary Shares</b>					
Income	<b>£413,000</b>	£396,000	£364,000	£452,000	£667,000
Profit (loss) on ordinary activities before tax	<b>£2,180,000</b>	£(45,000)	£(755,000)	£(1,027,000)	£346,000
Profit (loss) on ordinary activities after tax	<b>£2,180,000</b>	£(45,000)	£(755,000)	£(1,027,000)	£323,000
Profit (loss) per Ordinary share	<b>14.55p</b>	(0.29)p	(4.88)p	(6.60)p	-
Total recognised gain (loss) per Ordinary share	-	-	12.87p	(2.13)p	(13.02)p
Dividend paid per Ordinary share	<b>3.7p</b>	7.4p	-	0.85p	2.00p
Cumulative dividend paid	<b>30.5p</b>	26.8p	19.4p	19.4p	18.6p
Net assets attributed to Ordinary shares	<b>£15,260,000</b>	£13,090,000	£12,093,000	£10,137,000	£10,681,000
Net asset value per Ordinary share	<b>97.5p</b>	86.6p	78.3p	65.3p	68.0p
Total return per Ordinary share	<b>128.0p</b>	113.4p	97.7p	84.7p	86.6p
<b>C Shares</b>					
Income	<b>£38,000</b>	-	-	-	-
Profit on ordinary activities before tax	<b>£103,000</b>	-	-	-	-
Profit on ordinary activities after tax	<b>£103,000</b>	-	-	-	-
Profit per C share	<b>8.38p</b>	-	-	-	-
Dividend paid per Ordinary share	-	-	-	-	-
Cumulative dividend paid	-	-	-	-	-
Net assets attributed to C shares	<b>£1,287,000</b>	£237,000	-	-	-
Net asset value per C share	<b>102.2p</b>	95.0p	-	-	-
Total return per C share	<b>102.2p</b>	95.0p	-	-	-

The accounts were prepared under UK Generally Accepted Accounting Practices in 2002, 2003 and 2004 and were prepared under International Financial Reporting Standards in 2005 and 2006. The consequences of the revocation of investment company status have not been reflected in the disclosures for the year ended 31 March 2002. The loss on ordinary activities before and after tax for this period relates to the revenue return as calculated in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies'.

## Advisers to the Company

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

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

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

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

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

- Independent Auditors  
PricewaterhouseCoopers LLP  
Benson House  
33 Wellington Street  
Leeds LS1 4JP

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

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

