

# British Smaller Companies VCT plc

Annual Report for the year ended  
31 March 2013



# About Us

British Smaller Companies VCT plc was launched in 1996 and has a diverse portfolio of 29 unquoted and AIM quoted investments reducing exposure to particular markets and individual companies. The Company to date has in total disposed of 46 investments generating capital proceeds of £25.5 million. The current investment portfolio has an audited valuation of £27.6 million as at 31 March 2013.

## Fund Manager

British Smaller Companies VCT plc ("the Company") is managed by YFM Private Equity Limited ("the Fund Manager") which is a wholly owned subsidiary of YFM Equity Partners Limited and is authorised and regulated by the Financial Conduct Authority (formerly the Financial Services Authority). YFM Equity Partners Limited is part of the GLE Group of Companies.

## Investment Policy

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

The Company invests in UK businesses across a range of sectors including but not limited to Industrial, Healthcare, Software and Consumer Products in VCT qualifying and non-qualifying unquoted and AIM quoted securities. The current legislation governing VCTs requires that at least 70 per cent by value of its holdings must be in 'qualifying holdings'. The maximum value that the Company may hold in a single

investment is 15 per cent of the Company's investment value at the time of investment. Although the majority of investments will normally be in equities, preference shares and loan stock may also be subscribed for, thereby spreading risk and enhancing yields.

Further details of the Company's investment policy can be found in the Directors' Report on page 39.

## Dividend Policy

Your Board remains committed to achieving the objective of paying a consistent dividend stream where possible. This is dependent upon both the level of realisations and the investment income that the Company is able to make or generate in any one period.

The tax free nature of a VCT is of particular benefit for qualifying Shareholders as there is no income tax payable on the dividends received, or need to declare them in a tax return. This means that qualifying Shareholders in British Smaller Companies VCT plc who are higher rate tax payers do not have to pay income tax on the dividends they receive from the Company.

## Share Buy-Backs

In recent years the rate of discount to Net Asset Value at which ordinary shares are bought back has been set at no more than 15 per cent. Following a review of this policy the Board is pleased to advise that, from 11 June 2013, the rate of discount at which ordinary shares will be bought back is targeted to be no more than 10 per cent.

Share buy-backs enable Shareholders to obtain some liquidity in an otherwise illiquid market when there is a need to dispose of stock. This policy is kept under active review to ensure that any decisions taken are in the interests of Shareholders as a whole.

## Dividend Re-Investment Scheme (DRIS)

The Company operates a dividend re-investment scheme which gives Shareholders the opportunity to re-invest any cash dividends. Currently dividends are re-invested at a 5 per cent discount to the latest reported Net Asset Value as at the date the dividend is paid (adjusted for the relevant dividend if this Net Asset Value does not already recognise the dividend). Any dividends that are re-invested by qualifying Shareholders are eligible for income tax relief at 30 per cent of the amount invested subject to an annual investment limit of £200,000.

### Financial Overview

Financial Highlights	3
Financial Summary	4
<b>Business Review</b>	
Chairman's Statement	6
Fund Manager's Review	10
Valuation of Investments	27

### Corporate Governance

Directors	28
Directors' Report	29
Directors' Remuneration Report	41
<b>Auditor's Report</b>	
Independent Auditor's Report	43

### Financial Statements

Statement of Comprehensive Income	44
Balance Sheet	45
Statement of Changes in Equity	46
Statement of Cash Flows	48
Notes to the Financial Statements	49

### Contents

#### Annual General Meeting

Notice of the Annual General Meeting	66
Form of Proxy	69

<b>Advisers to the Company</b>	71
--------------------------------	----

## Financial Highlights

181.2p

### Total Return

Your Company's Total Return has increased by 2.4 pence per ordinary share from 178.8 pence per ordinary share to 181.2 pence per ordinary share since 31 March 2012 which includes cumulative dividends paid of 84.2 pence per ordinary share.

2.4%

### Net Asset Value Increase of 2.4 per cent

Your Company has continued to make progress this year with an overall increase above the opening Net Asset Value ("NAV") of 2.4 per cent. In the year NAV increased by 2.4 pence per ordinary share from 99.6 pence per ordinary share at 31 March 2012 to 102.0 pence per ordinary share at 31 March 2013, out of which dividends totalling 5.0 pence per ordinary share were paid resulting in a year end NAV of 97.0 pence per ordinary share.

4.1%

### Investment Returns

The underlying growth in the investment portfolio was £1.0 million, representing a 4.1 per cent increase. This included £0.3 million of unrealised value growth and £0.7 million of profit on disposals.

6.5p

### Dividends for the Year

Dividends paid and proposed in respect of the year to 31 March 2013 have been increased to 6.5 pence per ordinary share. These comprise an interim dividend of 2.0 pence per ordinary share paid on 14 January 2013 as well as an increased final dividend of 3.5 pence per ordinary share proposed by the Board. In addition, following the disposal of Fishawack Limited and Tikit Group plc, the Board is declaring a special dividend of 1.0 pence per ordinary share which will be paid at the same time as the final dividend. The average dividend paid over the five years to 31 March 2013 is 5.25 pence per ordinary share before taking account of the special dividend in respect of the partial disposal of GO Outdoors of 18.0 pence per ordinary share paid in August 2011.

81.2%

### Original Investor Return

Shareholders who subscribed in the Company's first fundraising round for the 1995/96 and 1996/97 Tax Year have received 84.2 pence per ordinary share of dividends to date with the Total Return of 181.2 pence per ordinary share representing an 81.2 per cent uplift on their original investment. Taking account of the original 20 per cent upfront tax relief this return increases to 126.5 per cent. The annualised return for Shareholders in each fundraising round is set out on page 5.

## Financial Calendar

Results Announced	11 June 2013
Ex-Dividend Date	10 July 2013
Record Date	12 July 2013
Annual General Meeting	19 July 2013
DRIS Election Date	30 July 2013
Dividend Paid	13 August 2013

# Financial Summary

## Five Year Summary

	Year ended 31 March 2013	Year ended 31 March 2012	Year ended 31 March 2011	Year ended 31 March 2010	Year ended 31 March 2009
Income	<b>£1,323,000</b>	£1,236,000	£1,174,000	£1,129,000	£1,173,000
Profit (loss) before and after taxation	<b>£1,123,000</b>	£1,064,000	£10,373,000	£4,202,000	£(3,266,000)
Profit (loss) per ordinary share	<b>2.78p</b>	2.92p	31.38p	13.65p	(10.62)p
Dividend per ordinary share paid in the year	<b>5.0p</b>	23.0p	6.25p	5.0p	5.0p
Cumulative dividend paid per ordinary share	<b>84.2p</b>	79.2p	56.2p	50.0p	45.0p
Net assets attributed to ordinary shares	<b>£42,089,000</b>	£37,894,000	£41,172,000	£29,008,000	£26,400,000
Net Asset Value per ordinary share	<b>97.0p</b>	99.6p	120.0p	94.4p	85.7p
Total Return per ordinary share	<b>181.2p</b>	178.8p	176.2p	144.4p	130.7p

## Total Shareholder Return and Dividend History

The chart below shows the Five Year Total Shareholder Return of your Company, calculated by reference to the Net Asset Value per ordinary share plus cumulative dividends paid per ordinary share.



## Total Return by Fundraising Round

The table below shows the Total Return on each fundraising round per ordinary share and the Total Return if a Shareholder had opted to participate in the Company's DRIS. The cumulative dividends, Total Return and IRR figures in this table exclude the benefits of all tax reliefs.

Fundraising Round <sup>5</sup>	Offer price	Offer price net of tax	Net Asset Value at 31 March 2013	Cumulative dividends paid since fundraising <sup>1</sup>	Total Return since fundraising <sup>1</sup>	Total Return since fundraising with participation in the DRIS <sup>1&amp;2</sup>	IRR (excluding DRIS) <sup>4</sup>
	Pence	Pence	Pence	Pence	Pence	Pence	%
1995/96 & 1996/97 Tax Years	100.00	80.00	97.00	84.20	181.20	200.57	4.6
1996/97 & 1997/98 Tax Years	100.00	80.00	97.00	83.14	180.14	199.50	4.7
1997/98 & 1998/99 Tax Years	105.00	84.00	97.00	79.64	176.64	196.00	4.4
2004/05 Tax Year (C share) <sup>3</sup>	99.50	59.70	109.10	55.89	164.99	178.86	7.3
2005/06 Tax Year	100.00	60.00	97.00	53.75	150.75	165.90	7.3
2006/07 & 2007/08 Tax Years	102.50	71.75	97.00	49.25	146.25	158.27	7.2
2007/08 & 2008/09 Tax Years	106.25	74.38	97.00	44.25	141.25	150.34	6.8
2009/10 & 2010/11 Tax Years	97.25	68.08	97.00	34.25	131.25	135.28	12.4
2010/11 & 2011/12 Tax Years	128.00	89.60	97.00	28.00	125.00	126.77	(1.5)
2011/2012 Tax Year	99.75	69.83	97.00	5.00	102.00	102.07	2.5

The table below shows, for a Shareholder investing £10,000 in each fundraising round of the Company, the Total Return since that fundraising round and the Total Return if the Shareholder had opted to participate in the Company's DRIS since the scheme's inception in 2004. The cumulative dividends and Total Return figures in this table exclude the benefits of all tax reliefs.

Fundraising Round <sup>5</sup>	Subscription	Subscription net of tax	Net Asset Value at 31 March 2013	Cumulative dividends paid since fundraising <sup>1</sup>	Total Return since fundraising <sup>1</sup>	Total Return since fundraising with participation in the DRIS <sup>1&amp;2</sup>
	£	£	£	£	£	£
1995/96 & 1996/97 Tax Years	10,000	8,000	9,700	8,420	18,120	20,057
1996/97 & 1997/98 Tax Years	10,000	8,000	9,700	8,314	18,014	19,950
1997/98 & 1998/99 Tax Years	10,000	8,000	9,238	7,585	16,823	18,667
2004/05 and 2005/06 Tax Year (C share) <sup>3</sup>	10,000	6,000	10,964	5,617	16,581	17,976
2005/06 Tax Year	10,000	6,000	9,700	5,375	15,075	16,590
2006/07 & 2007/08 Tax Years	10,000	7,000	9,463	4,805	14,268	15,441
2007/08 & 2008/09 Tax Years	10,000	7,000	9,129	4,165	13,294	14,150
2009/10 & 2010/11 Tax Years	10,000	7,000	9,974	3,522	13,496	13,910
2010/11 & 2011/12 Tax Years	10,000	7,000	7,578	2,188	9,766	9,904
2011/12 Tax Year	10,000	7,000	9,724	501	10,225	10,232

### Notes

1. This assumes that at the time of investment the tax relief given on the investment was not invested in shares of the Company.
2. Assuming that all dividends were invested under the terms of the current DRIS.
3. NAV has been adjusted for conversion of C Shares into ordinary shares in May 2007.
4. The IRR calculation has been performed using the offer price and based on the issue date of 5 April (in the earlier tax year if two years are given) in all cases, and is stated after issue costs of between 4.75 per cent and 5.5 per cent.
5. The tables above show the offer price and Total Return for each fundraising round. As some of the fundraising rounds straddle the end of the tax year a Shareholder may have invested in two separate fundraising rounds under the same tax year. For example, under the 2009/10 and 2010/11 Tax Year round shares were issued on 5 April 2011 (the 2010/11 Tax Year) and 4 May 2011 (the 2011/12 Tax Year). The subsequent 2011/12 Tax Year round issued shares on 20 March 2012 which also fell into the 2011/12 Tax Year, although issued almost 10 months later than those on 4 May 2011. To accommodate this some tax years appear twice in the table.



I am pleased to report another year of progress for your Company with Total Return (Net Asset Value plus cumulative dividends) rising by 2.4 pence per ordinary share over the year to 31 March 2013. This equates to an increase of 2.4 per cent on the opening Net Asset Value, a good result in the context of continuing economic uncertainty. As a comparison, the FTSE® AIM All-Share Index dropped by 8.2 per cent over the same period.

# Chairman's Statement

I am delighted to report that your Company has been ranked as a top five performer over the last three, five and ten years as reported by Citywire (Source: Citywire data as at 24 April 2013 – based on NAV performance).

## Financial Results

The movement in Net Asset Value per ordinary share and the dividends paid in the year are summarised in the table below.

The Net Asset Value increased by 2.4 pence per ordinary share prior to the payment of dividends totalling 5.0 pence per ordinary share during the year. The chart on page 4 of these Financial Statements shows in greater detail the movement in Total Return, Net Asset Value and dividends paid over time.

At 31 March 2013 cash, fixed term deposits and government securities amounted to £14.6 million; 34.7 per cent of the Company's Net Asset Value. The gilt and fixed term security portfolio has remained stable over the year.

### Net Asset Value

	Pence per ordinary share
31 March 2012	99.6
Net increase in portfolio	1.9
Other increase in value	0.4
Net increase in value	2.3
Buy-back of shares	0.3
Issue costs of new ordinary shares	(0.2)
Dividends paid	(5.0)
<b>31 March 2013</b>	<b>97.0</b>

### Incentive Fee

In accordance with the terms of the investment management agreement (the details of which are set out on page 40) an incentive fee of £0.03 million is payable to YFM Private Equity Limited.

This payment is linked to achieving both a consistent and increasing dividend (with the target dividend, below which no incentive fee is payable, adjusted for RPI annually) as well as maintaining growth in the Net Asset Value above a hurdle.

## Investment Portfolio

The net gain on the investment portfolio was £1.0 million, an increase of 4.1 per cent on the opening 31 March 2012 portfolio value of £24.2 million. This comprises profit on disposals of £0.7 million and an increase in the residual portfolio value of £0.3 million after allowing for the impact of investments and disposals. The residual portfolio value increase results from valuation growth of 4 per cent in unquoted investments and a fall in value of 18 per cent in respect of quoted securities.

Good progress has been made by a number of our portfolio businesses which have seen profits grow despite the challenging economic environment, with the largest value gains being from DisplayPlan Holdings Limited and President Engineering Group Ltd, which increased by £1.7 million and £0.6 million respectively.

There are currently twenty-nine (2012: twenty-nine) companies in the portfolio of which twenty are unquoted and nine are quoted, with eight traded on AIM and one on the ISDX Growth Market. The current value of the unquoted portfolio is £24.7 million, whilst the quoted portfolio is valued at £2.9 million – these represent 89.4 per cent and 10.6 per cent of the total portfolio respectively.

### New Investments

During the year ended 31 March 2013 the Company completed eight investments totalling £5.2 million. This comprised two new investments in unquoted companies, five follow-on investments into existing portfolio companies and one re-investment into an acquisition vehicle.

### Disposal of Investments

During the year the Company received proceeds of £2.8 million on three full disposals and two partial disposals, including scheduled loan repayments. They contributed a profit of £0.7 million on both the cost and opening value, including a small profit on sales from the gilt portfolio.

19 July  
2013

The Annual General Meeting of the Company will be held at 12.00 noon on 19 July 2013 at 33 St James Square, London, SW1Y 4JS. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 66.

## Shareholder Relations

### Dividends

Your Board remains committed to achieving an increasing dividend stream over time.

Dividends paid in the year comprise a final dividend of 3.0 pence per ordinary share in respect of the year ended 31 March 2012 and an interim dividend of 2.0 pence per ordinary share in respect of the financial year just ended, totalling 5.0 pence per ordinary share. This represents 5 per cent of the opening Net Asset Value per ordinary share, bringing the cumulative dividends paid to 84.2 pence per ordinary share.

The Board is pleased to propose a final dividend of 3.5 pence per ordinary share payable in August 2013, representing a 0.5 pence increase on last year. In addition, following the realisation of investments in Fishawack Limited and Tikit Group plc, the Board is also declaring the payment of a 1.0 pence per ordinary share special dividend (payable at the same time as the final dividend).

The final dividend is subject to approval by Shareholders at the Annual General Meeting and, together with the special dividend, will be paid on 13 August 2013 to Shareholders on the register at 12 July 2013.

### Dividend Re-investment Scheme (DRIS)

The Company operates a DRIS, which gives Shareholders the opportunity to re-invest any cash dividends as described on page 2. The DRIS is open to all Shareholders, including those who invested under the recent joint Offer.

### Fundraising

Following an offer for subscription launched on 6 March 2012 your Board is pleased to

announce that, during the month the offer was open, gross proceeds of £2.6 million were raised.

The recent changes to UK legislation implemented with effect from 6 April 2012 have increased the ability of Venture Capital Trusts to invest in growing British businesses. This, combined with the restricted supply of other forms of finance, make an attractive investment environment for those investors, such as VCTs, that are able to take a medium term view.

The Company therefore sought to increase further its investment capacity, through a joint offer with British Smaller Companies VCT2 plc launched on 16 November 2012 ("the Offer"). The Offer was fully subscribed and closed on 30 April 2013 with the Company raising a total of £10.3 million, before costs.

### Share Buy-Back Policy

In recent years the rate of discount to Net Asset Value at which ordinary shares are bought back has been set at no more than 15 per cent.

Following a review of this policy the Board is pleased to advise that the rate of discount at which ordinary shares will be bought back is targeted to be no more than 10 per cent.

### Shareholder Communications

Your Board remains committed to enhancing Shareholder communications. Our 18th Shareholder Workshop was held at Lord's Cricket Ground in London on 6 February 2013 with approximately 200 Shareholders attending.

Presentations at the workshop were made by David Hall (on behalf of the Company's Fund Manager, YFM Private Equity Limited), as well as the managing directors of

investee companies Selima Limited (Wayne Blakemore) and DisplayPlan Holdings Limited (Scott Morris) and independent analyst and commentator Martin Churchill.

## Subsequent Events

The Board is now seeing a marked increase in good quality investment opportunities for the Company and is well placed to capitalise on these, following recent fundraisings.

In total £0.2 million has already been invested since the year end in:

- AB Dynamics plc; and
- GO Outdoors Limited.

In addition, a further £5.5 million of investment submissions have been approved by the Board pending satisfactory fulfilment of investment criteria.

The £1.3 million of non-qualifying loans to Seven Technologies Holdings Limited have been repaid as part of the funding package for the proposed acquisition of Datong plc.

Subsequent to the year end the Company allotted 6,400,143 new ordinary shares of 10.0 pence each, receiving gross proceeds of £6.2 million. Details of these allotments are as set out in note 11 on page 60 of these Financial Statements. In total the Company raised net proceeds of £9.8 million under the joint Offer.

## Outlook

It is encouraging to see another year where trading improvements across much of the portfolio have fed through into increased valuations.

Many companies have taken opportunities to improve efficiency and capitalise on market changes resulting from the uncertain economic conditions.

Your Company is well placed both to add to the diversity of its investment portfolio and to continue to support existing portfolio companies as they seek to expand organically and through selective acquisitions.

The Board believes that the upcoming period is likely to present good investment opportunities, both for existing portfolio businesses and for new investments and this can already be seen clearly in the increasing investment rates.

The relaxation of some of the restrictions governing VCT qualifying investments is also expected to increase the number and scale of attractive opportunities over the coming years. It was with this in mind that we increased the investment capacity of the Company in order to be in a strong position to take advantage of these as they arise.

The strong long-term track record of your Company provides an excellent platform for future fundraising and investment activity.

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



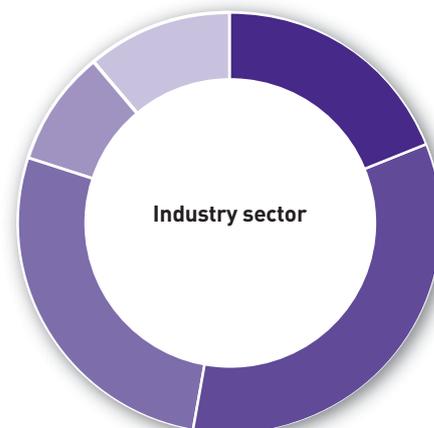
**Helen Sinclair**  
**Chairman**

11 June 2013

# Fund Manager's Review

This year the Company has significantly increased its investment capacity to take advantage of further investment opportunities over the coming months, with £11.3 million of net funds raised since 31 March 2012. Although still unpredictable the last few months have delivered some excellent opportunities to invest in good growing businesses at attractive prices, evidenced by the investments completed or approved by the Board since the year end. This has been helped by the increase to £5.0 million in the amount that can now be invested in companies by Venture Capital Trusts and Enterprise Investment Schemes. Following recent fundraisings the Company is now well placed to select the best opportunities and to take advantage of strong investment opportunities.

In spite of a continuation of the challenging economic environment, there has been considerable further progress made by many of the businesses in the Company's portfolio during the year. The overall value gain from the portfolio was £1.0 million, an increase of 4.1 per cent on the opening 31 March 2012 portfolio value, which comprises profit on disposals during the year of £0.7 million and an increase in the residual portfolio value of £0.3 million.



- Manufacturing and Industrial Services
- Retail and Brands
- IT and Telecommunications
- Healthcare
- Business Services

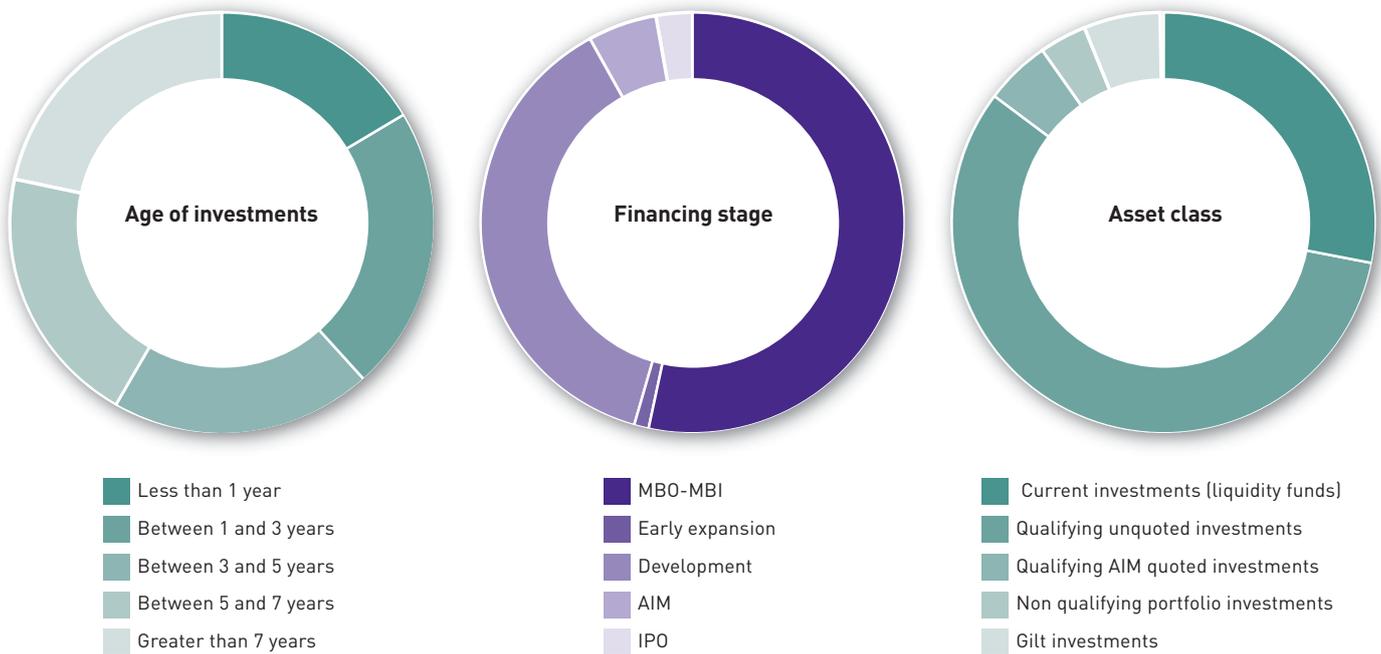
## Our Portfolio

<b>£27.6 million</b>	<b>Fair value of portfolio</b> 2012: £24.2 million
<b>29</b>	<b>Number of portfolio companies</b> 2012: 29
<b>£5.2 million</b>	<b>Investment into portfolio</b> 2012: £2.5 million
<b>£2.8 million</b>	<b>Disposal proceeds from portfolio</b> 2012: £10.4 million

## Summary

- Investment activity levels have increased with eight investments during the year totalling £5.2 million. This rate of investment has been maintained following the year end, with £0.2 million invested into two businesses, and £5.5 million of further investment approved by the Board.
- The Company has made three full disposals, two partial disposals and received loan repayments during the year totalling £2.8 million of cash proceeds.
- Cash and fixed income Government securities at 31 March 2013 were £14.6 million, representing 34.8 per cent of net assets. This compares to £14.9 million and 39.2 per cent of net assets at 31 March 2012.

## Our Portfolio at a Glance



### Significant Investment Movements

In addition to financial performance some strong progress has been made during the year to position many of the portfolio companies for future value growth. These include the following:

- **GO Outdoors Limited** now has a total of 43 stores and has expanded its high quality team committed to growing the direct online sales channel.
- **President Engineering Group Ltd** has seen an increase in commissioning of ships for the transportation of LNG requiring its market-leading cryogenic valves.
- **Harvey Jones Holdings Limited** has opened a further three stores and is now focused on driving increased profits through existing locations.
- **RMS Group Holdings Limited** has delivered its fourth successive year of profit growth helped by its specialism in the growing waste-to-energy sector.
- **Bagel Nash Group Limited** has opened four new retail units and is relocating its bakery operation to increase capacity for further growth.
- **PowerOasis Limited** has closed a \$5.0 million investment round led by a key strategic partner who is actively driving sales opportunities in North America.
- **Cambridge Cognition Limited**, now Cambridge Cognition Holdings plc, successfully listed on AIM raising £5.0 million to fund expansion plans for its point of care diagnostic software.

## Portfolio Performance

	Quoted and unquoted portfolio £000	Deferred proceeds £000	Total £000
1 April 2012	24,200	–	24,200
Additions	5,213	–	5,213
Proceeds	(2,807)	–	(2,807)
Valuation changes			
Unquoted	811	–	
Quoted	(544)	–	
Profit on disposal	687	–	
Value growth	954	4	958
<b>31 March 2013</b>	<b>27,560</b>	<b>4</b>	<b>27,564</b>

## Investment Portfolio

Unquoted Investments:	£000
Non Qualifying	753
Qualifying	23,884
	<b>24,637</b>
AIM/ISDX Growth Market Listed Investments:	£000
Non Qualifying	770
Qualifying	2,153
	<b>2,923</b>
<b>Total Investments</b>	<b>27,560</b>

## Investment Activity

New Investments:	£million
Seven Technologies Holdings Limited	2.52
Insider Technologies (Holdings) Limited	1.17
Re-invested:	£million
Fairlight Bridge Limited	1.00
Follow-on Investments:	£million
Vianet Group plc	0.24
Hargreaves Services plc	0.10
Lightmain Company Limited	0.08
PowerOasis Limited	0.05
Dryden Human Capital Group Limited	0.03
Bagel Nash Group Limited (capitalised interest)	0.02
<b>Total</b>	<b>5.21</b>

## Portfolio Overview

### Portfolio Performance

Overall the portfolio remains well funded and positioned for value growth even if current difficult economic conditions continue. The underlying value growth of the opening quoted and unquoted portfolio was £1.0 million after adjusting for new investments and cash proceeds.

The £0.8 million increase in value of the unquoted portfolio relates largely to the following significant movements:

- Increase of £1.7 million in DisplayPlan Holdings Limited following a very strong first year of trading for this retail display supplier;
- Increase of £0.6 million in President Engineering Group Ltd as sales growth continued for both of its niche engineering brands;
- Increase of £0.3 million in RMS Group Holdings Limited after another year of profit growth for this leading port operator on the Humber estuary;
- Increase of £0.2 million in Waterfall Services Limited following another year of profit growth;
- Decrease of £0.5 million in GO Outdoors Limited due to a slowdown in its growth rate as it weathered a market-wide decline in the retail sector. However it remained strongly profitable and plans further new stores in 2013;
- Decrease of £0.4 million in Deep-Secure Ltd as profits declined in 2012 although the business remains profitable and continues to demonstrate a significant sales pipeline;
- Decrease of £0.4 million in TeraView Limited after an initial disappointing commercial take-up of its innovative Terahertz technology by strategic partners; and
- Decrease of £0.6 million in Lightmain Company Limited as it faces a difficult market for selling into local authorities.

The quoted portfolio decrease of £0.5 million was due to a general negative swing across the markets but also affected by a small number of bigger changes. K3 Business Technology Group plc saw a value drop of £0.3 million following a difficult year for its core retail customer base, whilst Hargreaves Services plc saw a £0.2 million value fall following operational issues at its Maltby coal mine. These were

offset by a value gain of £0.2 million in Mattioli Woods plc which weathered the Retail Distribution Review and is now projecting sales growth.

In accordance with IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. The outcome of this sensitivity analysis can be found in note 7 of the Financial Statements on page 56.

## Investment Activity

During the year the Company made a total of eight investments (£5.2 million), comprising two new investments in the unquoted portfolio, one re-investment into an acquisition vehicle and five follow-on investments into existing companies. New investments were made as follows:

- £2.5 million to support the expansion plans of Seven Technologies Holdings Limited, a world leading provider of electronic and communication equipment designed to operate in remote and inhospitable environments; and
- £1.2 million into Insider Technologies (Holdings) Limited, an established UK provider of monitoring and scheduling software to the UK financial services sector.

The five follow-on investments totalled £0.5 million with the most significant being a £0.2 million investment into Vianet Group plc, a leading provider of remote monitoring software to the brewing, fuel supply and vending sectors.

## Disposals

In the year to 31 March 2013 the Company made a number of significant full and partial disposals from both the quoted AIM and unquoted investment portfolio, generating over £2.8 million in cash proceeds. This has

resulted in £0.7 million of profit in excess of opening value in the year, and profit on cost of £0.7 million.

The three most significant disposals from the unquoted portfolio were:

- Fishawack Limited was sold to a secondary buy-out with backing from the private equity investor GCP in March 2013 achieving a cash multiple over its life of 1.9x cost. This delivered total cash proceeds for the year of £1.3 million and a profit on value and cost of £0.4 million. The Company supported the management team through their strategy of growing the business by acquisition since the buy-in. The company currently has revenues of over £10 million which have trebled since the initial investment in 2008;
- Primal Pictures Limited was sold via a trade sale to Informa plc in August 2012 resulting in a cash multiple of 1.4x cost. This generated cash proceeds of £0.6 million and a profit on value of £0.2 million. This was a long term investment for the Company, which invested in 2001 and worked closely with the business to reposition itself as a provider of online educational products; and
- Tikit Group plc was sold via a trade sale to British Telecommunications plc in January 2013, generating a cash multiple of 3.6x cost, cash proceeds of £0.5 million and a profit on initial investment cost of £0.4 million.

Partial realisations of £0.2 million in total were also achieved from quoted EKF Diagnostics Holdings plc and Straight plc.

“YFM has been a strong partner through a period of significant change and was ultimately instrumental in enabling us all to achieve this successful result”.

**David Carmen,**  
Chairman of Primal Pictures

“YFM have been very supportive investors, helping us transform our business from being a UK only medical communications agency to an international player supporting its clients on a global basis”.

**Oliver Dennis,**  
Founding director of Fishawack

## Summary and Outlook

The year under review has seen a continuation of some of the previous challenging market conditions and management teams now pragmatically expect these conditions to continue for some time to come. However, in spite of this, further value growth has been achieved in the year as these small businesses push ahead with clear growth strategies and rapidly increase market share. The portfolio is becoming increasingly diverse, and well-funded to deliver further value gains over the coming years.

Cash reserves remain strong after the successful fundraising, so the Company is well-placed to take advantage of the increasing investment opportunities, continue to support the portfolio and maintain consistent and growing dividend levels.

**David Hall**  
**YFM Private Equity Limited**  
11 June 2013

	Net proceeds from sale of investments £000	Cost of investment £000	Profit on cost £000	Opening value 1 April 2012 £000	Profit on opening value £000
Sale of investments	2,807	2,172	635	2,120	687
Fixed income securities	901	858	43	893	8
<b>Total cash proceeds</b>	<b>3,708</b>	<b>3,030</b>	<b>678</b>	<b>3,013</b>	<b>695</b>
Deferred proceeds accrued	4	n/a	4	n/a	4
<b>Total cash and deferred proceeds</b>	<b>3,712</b>	<b>3,030</b>	<b>682</b>	<b>3,013</b>	<b>699</b>

# Fund Manager's Review

## Portfolio Valuation at 31 March 2013 and Disposal History up to 31 March 2013

Page no.	Name of Company	Date of initial investment	Location	Industry sector	Current cost £000	Proceeds to date* £000	Investment valuation at 31 March 2013 £000	Return to date £000
	<b>Current Investments</b>							
	<b>Unquoted Portfolio</b>							
16	GO Outdoors Limited	May-98	Sheffield	Retail	113	6,995	4,955	11,950
17	President Engineering Group Ltd	Sep-10	Sheffield	Manufacturing	1,000	-	3,281	3,281
17	DisplayPlan Holdings Limited	Feb-10	Baldock, Herts	Retail	1,300	-	3,042	3,042
18	Seven Technologies Holdings Limited	Apr-12	Belfast	Telecommunications	2,302	222	2,335	2,557
18	Deep-Secure Ltd	Dec-09	Malvern	Software	1,000	-	1,940	1,940
18	Waterfall Services Limited	Feb-07	Warrington	Support Services	767	233	1,736	1,969
19	Insider Technologies (Holdings) Limited	Aug-12	Manchester	Software	1,170	-	1,208	1,208
19	Fairlight Bridge Limited	Apr-12	Midlands	Turnaround Services	1,000	-	1,000	1,000
19	Harvey Jones Holdings Limited	May-07	London	Consumer Retail	777	-	836	836
20	RMS Group Holdings Limited	Jul-07	Goole	Industrial	180	897	726	1,623
20	Harris Hill Holdings Limited	Jun-07	Kingston-upon-Thames	Recruitment	600	-	701	701
20	Selima Limited	Mar-12	Sheffield	Software	600	-	699	699
21	Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	-	608	608
21	Bagel Nash Group Limited	Jul-11	Leeds	Food Retail	628	-	600	600
21	PowerOasis Limited	Nov-11	Swindon	Energy Infrastructure	425	-	425	425
22	Dryden Human Capital Group Limited	Apr-08	London	Recruitment	523	-	204	204
22	Cambridge Cognition Holdings plc (formerly Cambridge Cognition Limited)	May-02	Cambridge	Healthcare	325	-	192	192
23	Lightmain Company Limited	Mar-10	Rotherham	Manufacturing	676	-	75	75
23	Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	823	-	74	74
23	TeraView Limited	Dec-11	Cambridge	Electronics	375	-	-	-
	<b>Quoted Portfolio</b>							
24	Mattioli Woods plc	Nov-05	Leicester	Support Services	326	-	691	691
24	Hargreaves Services plc	Dec-07	Durham	Manufacturing	416	330	635	965
24	Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	425	-	468	468
25	EKF Diagnostics Holdings plc	Jul-10	London	Medical Instruments	252	226	394	620
25	Vianet Group plc	Oct-06	Stockton-on-Tees	Business Services	404	-	326	326
25	K3 Business Technology Group plc	Apr-08	Manchester	Software	402	-	285	285
26	Woodspeen Training Group plc	Dec-10	London	Training Provider	250	-	73	73
26	Straight plc	Feb-04	Leeds	Industrial	116	171	27	198
26	Belgravium Technologies plc	Oct-05	Bradford	Software	165	22	24	46
					<b>17,840</b>	<b>9,096</b>	<b>27,560</b>	<b>36,656</b>
	Full disposals since March 2002				16,546	22,271	-	22,271
	Full disposals prior to March 2002				6,394	3,246	-	3,246
	<b>Total</b>				<b>40,780</b>	<b>34,613</b>	<b>27,560</b>	<b>62,173</b>

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

## Reconciliation of Investment Portfolio Movement since 31 March 2012

Name of Company	Investment valuation at 31 March 2012 £000	Disposals proceeds £000	Additions £000	Valuation gains (losses) including profits (losses) on disposal £000	Investment valuation at 31 March 2013 £000
<b>Current Investments</b>					
GO Outdoors Limited	5,504	-	-	(549)	4,955
President Engineering Group Ltd	2,687	-	-	594	3,281
Deep-Secure Ltd	2,298	-	-	(358)	1,940
Waterfall Services Limited	1,503	-	-	233	1,736
DisplayPlan Holdings Limited	1,300	-	-	1,742	3,042
Fishawack Limited	896	(1,303)	-	407	-
Harvey Jones Holdings Limited	783	-	-	53	836
Lightmain Company Limited	686	-	76	(687)	75
Harris Hill Holdings Limited	653	-	-	48	701
Bagel Nash Group Limited	611	-	17	(28)	600
Other unquoted investments	3,558	(809)	4,779	(57)	7,471
Quoted investments	3,721	(695)	341	(444)	2,923
<b>Total</b>	<b>24,200</b>	<b>(2,807)</b>	<b>5,213</b>	<b>954</b>	<b>27,560</b>

# Fund Manager's Review

## Manufacturing and Industrial Services



Fair value

**£5.21m**

2012: £5.10m

Number of companies

**6**

2012: 6

## Retail and Brands



Fair value

**£9.43m**

2012: £8.20m

Number of companies

**4**

2012: 4

## IT and Telecommunications



Fair value

**£7.53m**

2012: £5.37m

Number of companies

**9**

2012: 8

## Healthcare



Fair value

**£0.66m**

2012: £2.30m

Number of companies

**3**

2012: 5

## Business Services



Fair value

**£4.73m**

2012: £3.23m

Number of companies

**7**

2012: 6

## Investment Portfolio

This section describes the business of the active companies in the portfolio in order of valuation at 31 March 2013 as detailed on page 14. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed.

## Unquoted Portfolio

### GO Outdoors Limited

Sheffield  
www.gooutdoors.co.uk

Cost:	£113,000
Valuation:	£4,955,000
Dates of investment:	May 1998, March 2002 and April 2007
Equity held:	14.09%
Valuation basis:	Earnings multiple
Dividends received:	£nil (2012: £297,911)

52 weeks ended	27 Jan 2013 £million	29 Jan 2012 £million
Sales	<b>170.98</b>	143.67
EBITDA pre exceptionals	<b>9.44</b>	8.46
Profit (loss) before tax	<b>1.49</b>	(2.56)
Retained profits	<b>3.31</b>	1.57
Net assets	<b>4.41</b>	2.67

**GO Outdoors** is a retailer of outdoor clothing and equipment. The original investment of £500,000 in May 1998 supported the buy-out with a second investment in March 2002 to support the company's first acquisition. The company has continued its expansion opening a further four stores in the year, taking the total number of outlets to forty three, with another opening soon. The £28.0 million investment from 3i plc in April 2011 was in part to fund a continuation of the rollout of this successful retail concept while at the same time purchasing approximately one-third of the Company's investment.



## President Engineering Group Ltd

Cost:	£1,000,000
Valuation:	£3,281,000
Date of investment:	September 2010
Equity held:	20.00%
Valuation basis:	Earnings multiple
Interest:	£81,000 (2012: £81,000)

Year ended 31 October	2012 £million	2011 £million
Sales	19.58	15.98
EBITA	4.01	2.78
Profit before tax	2.21	1.95
Retained profits	2.41	1.23
Net assets	2.57	1.42

**President Engineering** is a niche manufacturer of branded engineering products sold through agents to a diverse international customer base.



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

## DisplayPlan Holdings Limited

Cost:	£1,300,000
Valuation:	£3,042,000
Dates of investment:	February 2010 and January 2012
Equity held:	22.75%
Valuation basis:	Price of recent investment, reviewed for change in fair value
Interest:	£117,000 (2012: £25,644)

Year ended 31 December 2011 (2010: 13 months ended 30 November)	2011 £million	2010 £million
Sales	16.19	13.11
Profit before taxation	1.78	0.08
EBITA	1.78	0.08
Retained profits	2.13	0.81
Net assets	2.14	0.82

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

In January 2012 a further investment of £0.3 million was made into North Western Investments Limited to support the management buy-out of **DisplayPlan Holdings**



**Limited.** DisplayPlan provides a complete retail display consultancy service, from concept through design and sourcing to finished product delivery, to established branded product manufacturers and UK retailers. Typical products include bespoke point of purchase stands in high street retail stores.

## Seven Technologies Holdings Limited

Cost:	£2,302,000
Valuation:	£2,335,000
Date of investment:	April 2012
Equity held:	6.25%
Valuation basis:	Price of recent investment, reviewed for change in fair value
Interest:	£116,647 (2012: nil)

Following the buy-out of the existing company Seven Technologies Limited in April 2012 the first set of audited financial statements are not yet due.

**Seven Technologies** is a fast growing specialist engineering business based in Northern Ireland operating in the development and manufacture of bespoke electronics and communications applications for operation in inhospitable environments. The strategy is to maintain the impressive expansion to date through increasing the Company's international presence and significantly growing average contract sizes, in what is now a significant international market for its products.



On 10 May 2013 Seven Technologies announced it had made an offer to acquire Datong plc. This acquisition will enable Seven to expand its product range and significantly extend its international customer base. The deal will be funded by a mixture of new equity from existing shareholders and bank debt, with the Company's existing non-qualifying loans being refinanced.

## Deep-Secure Ltd

Cost:	£1,000,000
Valuation:	£1,940,000
Date of investment:	December 2009
Equity held:	14.29%
Valuation basis:	Earnings multiple
Interest:	£108,000 (2012: £72,195)

Year ended 31 December	2011 £million	2010 £million
Sales	3.72	2.61
EBITA	1.50	0.64
Profit (loss) before taxation	0.24	(0.50)
Retained losses	(0.26)	(0.50)
Net assets (liabilities)	0.14	(0.12)

**Deep-Secure's** market leading products protect against threats to IT security through high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack demands more businesses rely on higher levels of security to protect their data, with the main customers being international governments, cross border forces and defence companies. Profit levels have grown strongly since the Company's investment in 2009.



## Waterfall Services Limited

Cost:	£767,000
Valuation:	£1,736,000
Date of investment:	February 2007
Equity held:	19.53%
Valuation basis:	Earnings multiple
Dividends received:	£nil (2012: £17,452)
Interest:	£nil (2012: £60,128 )

Year ended 31 March	2012 £million	2011 £million
Sales	46.47	43.26
EBITA	1.58	2.10
Profit before tax	0.86	1.30
Retained profits	1.44	1.57
Net assets	2.73	2.45

**Waterfall** is a contract caterer specialising in the care home sector. Since the original investment in 2007 the company has expanded its original catering services business from supplying residential and care homes to supplying the educational market. There has been both organic and acquisitive growth which has broadened and diversified the customer base with significant progress being made in expanding the services provided to both the education and care home sectors.



## Insider Technologies (Holdings) Limited

Manchester  
www.insidertech.co.uk

Cost:	£1,170,000
Valuation:	£1,208,000
Date of investment:	August 2012
Equity held:	25.80%
Valuation basis:	Price of recent investment, reviewed for change in fair value
Interest:	£54,741 (2012: n/a)

Following the buyout of the existing company (Insider Technologies Limited) in June 2012 the first set of audited financial statements for Insider Technologies (Holdings) Limited are not yet due.

**Insider Technologies** is an established provider of monitoring and scheduling software to the financial services and national security sectors. The Company backed the buyout of the business introducing new senior management to complement the existing team, who also invested in the deal. The strategy is to increase the sales focus and roll out existing and new complementary products in the UK and overseas.



## Fairlight Bridge Limited

Midlands

Cost:	£1,000,000
Valuation:	£1,000,000
Date of investment:	April 2012
Equity held:	50.00%
Valuation basis:	Price of recent investment, reviewed for change in fair value
Interest:	£nil

The first set of audited financial statements for Fairlight Bridge Limited is not yet due.

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



## Harvey Jones Holdings Limited

London  
www.harveyjones.com

Cost:	£777,000
Valuation:	£836,000
Date of investment:	May 2007
Equity held:	6.88%
Valuation basis:	Earnings multiple
Interest:	£82,850 (2012: £69,943)

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

**Harvey Jones** is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped Harvey Jones to maintain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to 27 from 10 at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit as market conditions improve.



## RMS Group Holdings Limited

Goole  
www.rms-humber.co.uk

Cost:	£180,000
Valuation:	£726,000
Dates of investment:	July 2007 and August 2008
Equity held:	8.10%
Valuation basis:	Earnings multiple
Interest:	n/a (2012: £41,134)

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

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



## Harris Hill Holdings Limited

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

Cost:	£600,000
Valuation:	£701,000
Date of investment:	June 2007
Equity held:	10.70%
Valuation basis:	Earnings multiple
Interest:	£43,987 (2012: £46,200)

Year ended 31 March	2012 £million	2011 £million
Sales	4.80	4.35
EBITA	0.50	0.49
Loss before tax	(0.15)	(0.21)
Retained losses	(2.62)	(2.39)
Net liabilities	(2.14)	(1.91)

**Harris Hill** is a niche recruitment business with a strong reputation for providing excellent permanent and temporary recruitment solutions to the charity and not-for-profit sectors. Whilst market conditions have been difficult over recent years at the level of earnings before interest, tax and amortisation the business has remained profitable and has seen a recovery in sales and profits since 2009.



## Selima Limited

Sheffield  
www.selima.co.uk

Cost:	£600,000
Valuation:	£699,000
Date of investment:	March 2012
Equity held:	12.50%
Valuation basis:	Earnings multiple
Interest:	£43,200 (2011: £2,604)

Year ended 31 December	2011 £million	2010 £million
Retained profits	0.77	0.64
Net assets	0.77	0.64

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

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



## Bluebell Telecom Group Limited

Newcastle-upon-Tyne  
www.bluebelltelecom.com

Cost:	£500,000
Valuation:	£608,000
Date of investment:	September 2010
Equity held:	6.75%
Valuation basis:	Earnings multiple
Interest:	£35,005 (2012: £35,005)

Year ended 30 April	2012 £million	2011 £million
Sales	13.59	7.02
EBITA	2.37	0.90
Profit (loss) before tax	0.34	(0.17)
Retained losses	(0.23)	(0.27)
Net assets	4.68	4.58

**Bluebell** is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's investment in 2010 was made to fund the acquisition of Callstream, which has been successfully integrated, and a further acquisition of Worldwide ISDN was completed in 2011. The revised strategy now focuses on expanding the more specialist inbound call activities, targeting a small number of niche sectors.



## Bagel Nash Group Limited

Leeds  
www.bagelnash.com

Cost:	£628,000
Valuation:	£600,000
Date of investment:	July 2011
Equity held:	6.80%
Valuation basis:	Price of recent investment, reviewed for change in fair value
Interest:	£56,160 (2012: £39,113)

Year ended 30 April	2012 £million
Sales	3.56
EBITA	0.33
Loss before tax	(0.26)
Retained losses	(0.28)
Net assets	0.45

The results shown above are the first for the consolidated business since the buy-in.

**Bagel Nash** is an established operator with a chain of 11 espresso and bagel bars in Leeds, Manchester, York and Huddersfield and also runs a bakery supplying products to its own stores and the UK wholesale trade. The Company backed an experienced team to undertake a management buy-in in July 2011 and value growth is predominantly expected to come from a retail rollout strategy.



## PowerOasis Limited

Swindon  
www.power-oasis.com

Cost:	£425,000
Valuation:	£425,000
Dates of investment:	November 2011 and March 2013
Equity held:	2.40%
Valuation basis:	Price of recent investment, reviewed for change in fair value

Year ended 31 January	2012 £million	2011 £million
Sales	2.73	1.05
LBITA	(2.12)	(1.57)
Loss before tax	(2.12)	(1.57)
Retained losses	(4.65)	(2.98)
Net assets	3.20	0.68

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



## Dryden Human Capital Group Limited

London  
www.drydenhumancapital.com

Cost:	£523,000
Valuation:	£204,000
Dates of investment:	April 2008, April 2011 and February 2013
Equity held:	7.77%
Valuation basis:	Earnings multiple
Dividends received:	£nil (2012: £30,316)

Year ended 31 March	2012 £million	2011 £million
Sales	9.82	9.36
EBITA	0.57	1.17
Profit before tax	0.29	1.02
Retained profits (losses)	0.15	(1.13)
Net assets	5.14	3.88

The figures given for 2011 are for the underlying business for which Dryden Human Capital Group Limited is now the holding company.

**Dryden Human Capital** is an international recruitment firm specialising in the actuarial, insurance and compliance markets. Recent market conditions have been challenging due to a slowdown in economic growth and a delay in implementation of new regulatory standards for the insurance industry. However actions have been taken to address this and the strong brand and geographic diversity will also assist in withstanding these pressures.



## Cambridge Cognition Holdings plc (formerly Cambridge Cognition Limited)

Cambridge  
www.camcog.com

Cost:	£325,000
Valuation:	£192,000
Date of investment:	May 2002
Equity held:	3.30%
Valuation basis:	Sales multiple

Year ended 31 December	2011 £million	2010 £million
Sales	5.87	4.83
EBITA	0.05	0.98
(Loss) profit before tax	(0.16)	0.74
Retained losses	(6.33)	(6.17)
Net liabilities	(0.41)	(0.25)

The figures given are for the Cambridge Cognition Limited business before flotation.

**Cambridge Cognition** is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental health conditions. It received funding from a range of investors to assist with commercialising its intellectual property. A profitable business model has been established providing its tests for use in evaluating clinical trials. On 18 April 2013 the company floated on AIM, raising £5.0 million to support the development of point of care diagnostic applications.



## Lightmain Company Limited

Rotherham  
www.lightmain.co.uk

Cost:	£676,000
Valuation:	£75,000
Dates of investment:	March 2010 and December 2012
Equity held:	33.00%
Valuation basis:	Price of recent investment, reviewed for changes in fair value
Interest:	£54,851 (2012: £53,718)

Year ended 30 September	2011 £million	2010 £million
Retained profits	1.47	1.16
Net assets	1.47	1.16

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

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



## Ellfin Home Care Limited

Oldham  
www.ellfin.com

Cost:	£823,000
Valuation:	£74,000
Dates of investment:	December 2007, October 2008 and June 2010
Equity held:	16.02%
Valuation basis:	Earnings multiple

Year ended 31 October	2011 £million	2010 £million
Sales	3.72	3.89
EBITA	0.03	0.24
Loss before tax	(0.76)	(0.52)
Retained losses	(1.38)	(0.63)
Net liabilities	(0.79)	(0.04)

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



## TeraView Limited

Cambridge  
www.teraview.com

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

Year ended 30 April	2012 £million	2011 £million
Sales	1.85	2.95
LBITA	(1.53)	(0.86)
Loss before tax	(2.48)	(5.75)
Retained losses	(34.34)	(32.01)
Net assets (liabilities)	0.48	(17.92)

**TeraView** is a pioneer and leader in Terahertz diagnostic and inspection systems and solutions. The investment was made to accelerate the growth of its semiconductor, industrial and analytical business in Asia, the US and the EU. The business has struggled to achieve commercial traction but continues to generate strong interest from trade partners in its technology.



## Quoted Portfolio

### Mattioli Woods plc

Leicester

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

Cost:	£326,000
Valuation:	£691,000
Dates of investment:	November 2005, February, March and October 2006 and July 2007
Equity held:	1.35%
Valuation basis:	Quoted bid price
Dividends received:	£14,870 (2012: £12,700)

Year ended 31 May	2012 £million	2011 £million
Sales	<b>20.48</b>	15.36
EBITA	<b>4.84</b>	4.87
Profit before tax	<b>4.18</b>	4.55
Retained profits	<b>15.02</b>	12.87
Net assets	<b>25.47</b>	22.10

**Mattioli Woods** provides pensions consultancy and administration services primarily to owner-managers, senior executives and professional persons. The group's key activities include complex pensions consultancy, the provision of Self-Invested Personal Pensions ("SIPP") and Small Self-Administered Pension Schemes ("SSAS"). The group operates a fee-driven model which has reacted well following the implementation of the Retail Distribution Review in January 2013.



### Hargreaves Services plc

Durham

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

Cost:	£416,000
Valuation:	£635,000
Dates of investment:	December 2007, January, February and March 2008 and July 2012
Equity held:	0.28%
Valuation basis:	Quoted bid price
Dividends received:	£15,501 (2012: £12,540)

Year ended 31 May	2012 £million	2011 £million
Sales	<b>688.26</b>	552.26
EBITA	<b>53.87</b>	46.65
Profit before tax	<b>43.12</b>	36.93
Retained profits	<b>97.80</b>	74.16
Net assets	<b>136.36</b>	114.65

In the years following its foundation in 1994 **Hargreaves Services** established itself as the largest independent bulk haulage company in Britain. The group has a national network of depots and facilities, and specialises in supplying and processing carbon-based minerals. It expanded into energy trading in mainland Europe, operating two collieries and a coke plant. The planning consent received in 2011 to begin production at the Tower Colliery in Wales was a significant step and should underpin further profit growth. Following operational issues in 2012 the decision was taken to close all mining activities at Maltby to focus instead on surface mining activities. On 10 May 2013 Hargreaves Services confirmed that it had been named by the liquidators of the Scottish Coal Company Limited as the preferred bidder for certain assets.



### Pressure Technologies plc

Sheffield

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

Cost:	£425,000
Valuation:	£468,000
Dates of investment:	June and July 2007
Equity held:	2.50%
Valuation basis:	Quoted bid price
Dividends received:	£21,265 (2012: £20,414)

Year ended 29 September (2011: 1 October)	2012 £million	2011 £million
Sales	<b>30.44</b>	23.13
EBITA	<b>2.24</b>	1.03
Profit before tax	<b>1.78</b>	0.58
Retained profits	<b>10.10</b>	9.61
Net assets	<b>16.06</b>	15.54

**Pressure Technologies** was admitted to AIM in June 2007. It specialises in the manufacture of ultra-large high pressure cylinders for the offshore oil and gas industry but is increasingly diversifying through acquisitions into other sectors, such as biogas and defence. The balance sheet remains ungeared with £2.7 million of surplus cash.



## EKF Diagnostics Holdings plc

Cost:	£252,000
Valuation:	£394,000
Dates of investment:	July 2010 and June 2011
Equity held:	0.57%
Valuation basis:	Quoted bid price

Year ended 31 December	2012 £million	2011 £million
Sales	<b>26.06</b>	21.66
EBITA	<b>3.28</b>	0.28
Loss before tax	<b>(0.20)</b>	(2.36)
Retained losses	<b>(3.00)</b>	(5.66)
Net assets	<b>39.43</b>	37.43

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



## Vianet Group plc

Cost:	£404,000
Valuation:	£326,000
Dates of investment:	October 2006, July 2007 and July 2012
Equity held:	1.36%
Valuation basis:	Quoted bid price
Dividends received:	£20,640 (2012: £7,464)

Year ended 31 March	2012 £million	2011 £million
Sales	<b>22.98</b>	24.28
EBITA	<b>3.35</b>	3.75
Profit before tax	<b>2.34</b>	3.03
Retained profits	<b>9.73</b>	9.01
Net assets	<b>23.22</b>	22.44

**Vianet Group** is the leading provider of volume and revenue protection systems for draught alcoholic drinks for the UK licensed on-trade. The company has consolidated its market leading position and continues to seek to expand its service and product offering. The pub chains continue to struggle, leading Vianet to diversify into related markets, such as petrol forecourts and vending machines. Dividend yield remains strong.



## K3 Business Technology Group plc

Cost:	£402,000
Valuation:	£285,000
Date of investment:	April 2008
Equity held:	1.05%
Valuation basis:	Quoted bid price
Dividends received:	£3,001 (2012: £2,250)

Year ended 30 June	2012 £million	2011 £million
Sales	<b>67.96</b>	52.80
EBITA	<b>10.94</b>	8.64
Profit before tax	<b>6.04</b>	4.91
Retained profits	<b>21.35</b>	15.81
Net assets	<b>46.91</b>	37.24

**K3** provides software-based supply chain management solutions to the manufacturing and retail sectors, and its Microsoft-based product range has continued to take market share from more established providers. Growth in internet retailing has helped to partially offset recent weakness in sales to traditional retailers. Following contract deferrals due to weakness in the retail sector K3 recently completed a new issue of shares in order to accelerate its plans to reduce borrowing levels.



## Woodspeen Training Group plc

Cost:	£250,000
Valuation:	£73,000
Date of investment:	December 2010
Equity held:	3.90%
Valuation basis:	Quoted bid price

16 months ended 31 July 2012 (year ended 31 March 2011)	2012 £million	2011 £million
Sales	<b>6.55</b>	5.71
LBITA	<b>(1.16)</b>	(1.08)
Loss before tax	<b>(1.42)</b>	(1.26)
Retained losses	<b>(2.27)</b>	(1.00)
Net assets	<b>4.68</b>	5.86

**Woodspeen Training** was incorporated in November 2007 with the aim of creating a substantial UK vocational training business principally by acquiring existing businesses providing Government sponsored and/or privately funded vocational training. Woodspeen expects "Apprenticeships" and "Foundation Learning" to be a major growth area in the future as the school leaving age is raised. Market conditions have been challenging for the last few years with high youth unemployment and margin pressures caused by government cuts, but the business remains focused on its long term strategy.



## Straight plc

Cost:	£116,000
Valuation:	£27,000
Dates of investment:	February 2004, January, March and November 2005 and May 2006
Equity held:	0.91%
Valuation basis:	Quoted bid price
Dividends received:	£nil (2012: £5,792)

Year ended 31 December	2011 £million	2010 £million
Sales	<b>27.98</b>	30.66
(LBITA) EBITA	<b>(0.52)</b>	1.67
(Loss) profit before tax	<b>(0.79)</b>	1.47
Retained profits	<b>2.23</b>	2.77
Net assets	<b>9.77</b>	10.29

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



## Belgravium Technologies plc

Cost:	£165,000
Valuation:	£24,000
Date of investment:	October 2005
Equity held:	1.17%
Valuation basis:	Quoted bid price
Dividends received:	£1,179 (2012: £nil)

Year ended 31 December	2012 £million	2011 £million
Sales	<b>8.67</b>	11.16
EBITA	<b>0.43</b>	1.18
Profit before tax	<b>0.28</b>	1.02
Retained profits	<b>1.05</b>	0.82
Net assets	<b>11.13</b>	10.90

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



# Valuation of Investments

## Initial Measurement

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

## Subsequent Measurement

The International Private Equity and Venture Capital (IPEVC) Valuation Guidelines ("the Guidelines") identify six of the most widely used valuation methodologies for unquoted investments. The Guidelines advocate that the best valuation methodologies are those that draw on external, objective market based data in order to derive a fair value.

## Unquoted Investments

- **Price of recent investment, reviewed for change in fair value.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply either a reduction or increase to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.
- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.

- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounted 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.
- **Sales multiples and industry valuation benchmarks.** Where appropriate comparator companies can be identified multiples of revenues may be used as a valuation benchmark.

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

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

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

## Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. Where the Company judges that the level of trading does not meet these requirements one of the methodologies above will be used to value the investment. No methodology other than active market bid price has been applied as at 31 March 2013.

# Directors

Name	Background and Experience
<p><b>Helen Sinclair</b> Chairman</p> 	<p>Helen has an MA in Economics from the University of Cambridge and an MBA from INSEAD Business School. After working in investment banking Helen spent nearly eight years at 3i plc focusing on MBO and growth capital investments. She later co-founded Matrix Private Equity (now Mobeus) in 2000 raising Mobeus Income &amp; Growth 2 VCT plc (formerly Matrix e-Ventures VCT plc). She subsequently became managing director of Matrix Private Equity Limited before moving to take on a portfolio of non-executive director roles in 2005. She is currently a non-executive director of The Income &amp; Growth VCT plc, Mobeus Income &amp; Growth 4 VCT plc, Spark Ventures plc and Downing Income VCT 4 plc.</p>
<p><b>Philip Cammerman</b></p> 	<p>Philip has an engineering degree from Imperial College and an MBA from Stanford University. He has over 20 years of industrial experience in engineering and technology orientated industries and has worked in both the USA and the UK. He has spent the last 26 years in the venture capital industry and was Chairman of YFM Private Equity Limited and a director of YFM Group (Holdings) Limited until he retired in April 2008. He has been responsible for a wide range of venture capital deals in a variety of industries including software, computer maintenance, engineering, printing, safety equipment, design and textiles. He is a non-executive director of Pressure Technologies plc and Hargreave Hale AIM VCT 2 plc. He has been a director of the Company since its establishment as a Venture Capital Trust.</p>
<p><b>Edward Buchan</b></p> 	<p>Edward is a Fellow of the Institute of Chartered Accountants in England and Wales, starting his career with Deloitte before moving to Hill Samuel Bank Limited where he became head of corporate finance and a member of the Bank Executive Committee. He subsequently joined Close Brothers Corporate Finance Limited and then West LB Panmure, specialising in the transport and logistics industry sectors. He is currently a senior adviser in corporate finance at LCF Edmond de Rothschild Securities Limited and is a non-executive director of Wallem Group Limited, a Cayman Islands registered company based in Hong Kong, and Downing Absolute Income VCT 1 plc.</p>

Secretary	Registered Office
<p><b>KHM Secretarial Services Limited</b>            Old Cathedral Vicarage            St James Row            Sheffield            S1 1XA</p> <p><b>Registered No:</b> 03612770</p>	<p>St Martins House            210-212 Chapeltown Road            Leeds            LS7 4HZ</p>

# Directors' Report

For the year ended 31 March 2013

The directors present their Report and audited Financial Statements of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 2013.

## Principal Activity

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

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

The Company operates as a venture capital trust ("VCT") and has been approved by HM Revenue & Customs as an authorised VCT under Chapter 3 Part 6 of the Income Tax Act 2007.

It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Chapter 3 Part 6 of the Income Tax Act 2007.

## Principal Risks, Risk Management and Regulatory Environment

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

### Economic

#### Risk

Events such as recession and interest rate fluctuations could affect smaller companies' performance and valuations.

#### Mitigation

As well as the response to 'Investment and Strategic' risk below the Company has a clear investment policy (page 39) and a diversified portfolio operating in a range of sectors. The Fund Manager actively monitors investee performance which provides quality information for the monthly review of the portfolio.

### Investment and Strategic

#### Risk

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

#### Mitigation

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

### Loss of Approval as a VCT

#### Risk

The Company must comply with Chapter 3 Part 6 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax. The Company would also lose its exemption from corporation tax on capital gains.

#### Mitigation

One of the Key Performance Indicators monitored by the Company is its compliance with legislative tests. Details of how the Company manages these requirements can be found under the heading 'Compliance with VCT Legislative Tests' on page 31.

## Regulatory

### Risk

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

### Mitigation

The Fund Manager has procedures in place to ensure recurring Listing Rules requirements are met and actively consults with brokers, solicitors and external compliance advisers as appropriate. The key controls around compliance are explained on page 38.

## Reputational

### Risk

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

### Mitigation

The Board is comprised of directors with suitable experience and qualifications who report annually to the Shareholders on their independence. The Fund Manager is well-respected with a proven track record and has a formal recruitment process to employ experienced investment staff. Allocation rules, relating to co-investments with other funds managed by the Fund Manager, have been agreed between the Fund Manager and the Company. Advice is sought from external advisers where required. Both the Company and the Fund Manager maintain appropriate insurances.

## Operational

### Risk

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

### Mitigation

The Fund Manager has a documented disaster recovery plan.

## Financial

### Risk

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

### Mitigation

The key controls around financial reporting are described on page 38.

## Market/Liquidity

### Risk

Lack of liquidity in both the venture capital and public markets. Investment in companies traded on AIM / the ISDX Growth Market and unquoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. The fact that a share is traded on AIM or the ISDX Growth Market does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

### Mitigation

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

## Business Review

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

## Principal Risks, Risk Management and Regulatory Environment

The Board seeks to mitigate its internal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In mitigation and management of these risks, the Board applies rigorously the principles detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on page 38 and further information on exposure to risks associated with financial instruments is given in note 19a of the Financial Statements.

## Key Performance Indicators

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

### Total Return

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

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

The evaluation of comparative success of the Company's Total Return is by way of reference to the Share Price Total Return for approximately 60 Generalist VCTs as published by the Association of Investment Companies. This is the Company's stated benchmark index. A comparison of this Total Return over the last five years is shown in the Directors' Remuneration Report on page 42.

## Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. Under Chapter 3 Part 6 of the Income Tax Act 2007, in addition to the requirement for a VCT's ordinary share capital to be listed on a regulated European market (the Company has been in the Official List on the London Stock Exchange throughout the period), there are five further tests that VCTs must meet following an initial provisional period:

### Income Test

The Company's income in the period must be derived wholly or mainly (at least 70 per cent) from shares or securities. The Company complied with this test in the period, with 90.9 per cent (2012: 71.6 per cent) of income being derived from such sources.

### Retained Income Test

The Company must not retain more than 15 per cent of its income from shares and securities. The Company complied with this test in the period, with income of £nil (2012: £nil) retained in the period.

### Qualifying Holdings Test

At least 70 per cent by value of the Company's investments must be represented throughout the period by shares or securities comprised in qualifying holdings of the investee companies. The Company complied with this test throughout the period, with 74.3 per cent (2012: 74.6 per cent) of value as at 31 March 2013 being in qualifying holdings.

### Eligible Shares Test

At least 30 per cent of the Company's qualifying holdings must be represented throughout the period by holdings of non-preferential ordinary shares. The Company complied with this test throughout the period, with 53.8 per cent (2012: 57.1 per cent) of value as at 31 March 2013 being in holdings of non-preferential ordinary shares.

### Maximum Single Investment Test

The value of any one investment, at any time in the period, has not represented more than 15 per cent of the Company's total investment value. This is calculated at the time of investment and further additions and therefore cannot be breached passively. The Company has complied with this test with the highest such value being 7.6 per cent (2012: 5.3 per cent).

The Board receives regular reports on compliance with the VCT legislative tests from its Fund Manager. In addition the Board receives formal reports from its VCT Status Adviser, PricewaterhouseCoopers LLP, twice a year.

For monies raised from 6 April 2011 onwards the eligible shares test highlighted above increases to at least 70 per cent of qualifying holdings that must be represented by eligible shares. In addition, monies raised from share issues from 6 April 2012 onwards are not permitted to be used in transactions involving the acquisition of shares. There is now also an annual limit for each investee company which provides that they may not raise more than £5.0 million of state aid investment (including VCTs) in the 12 months ending on the date of each investment. The Board and Fund Manager are mindful of these additional FICO requirements and of balancing investments to ensure continued compliance.

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

## Incentive Fee

Under the Incentive Agreement dated 7 July 2009 ("the Incentive Agreement") the Fund Manager will receive an incentive payment equal to 20 per cent of the amount by which dividends paid in the relevant accounting period exceed 4.0 pence per ordinary share (increased in line with RPI) once cumulative dividends of 10.0 pence per ordinary share from 1 April 2009 have been paid and the average Net Asset Value of the Company is above the adjusted target of 93.4 pence per ordinary share. These thresholds have been met in the current and previous years with £38,678 (2012: £1,557,336) being provided within trade and other payables at the year end. Further details can be found in note 3 of the Financial Statements.

## Results and Dividends

The Statement of Comprehensive Income for the year is set out on page 44. The profit before and after taxation for the year amounted to £1,123,000 (2012: £1,064,000).

During the year the Company paid a total of £1,959,000 worth of dividends totalling 5.0 pence per ordinary share. Details of these can be found in note 5 of the Financial Statements on page 53.

The directors recommend the payment of a final dividend of 3.5 pence per ordinary share (2012: 3.0 pence). In addition, following the disposal of Fishawack Limited and Tikit Group plc, a special dividend of 1.0 pence per ordinary share has also been declared. A resolution concerning the approval of the final dividend will be proposed at the Annual General Meeting to be held on 19 July 2013 and, if approved, both dividends will be paid on 13 August 2013 to Shareholders on the register on 12 July 2013.

The Net Asset Value per ordinary share at 31 March 2013 was 97.0 pence (2012: 99.6 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 46.

It has come to the Board's attention that there has been a technical breach of Companies Act legislation in respect of the special dividends (amounting to £6.4 million) paid on 22 August 2011 following the partial disposal of the Company's investment in GO Outdoors Limited in April 2011. Although the Company had sufficient distributable reserves shown in its management accounts to make this dividend payment, and the profit on the investment had been realised, these additional distributable reserves were not technically available to satisfy the payment of the dividends until the Company had prepared and filed interim accounts with the Registrar of Companies.

The Company has received external legal advice that this matter can be rectified by the passing of certain resolutions which the Company will put to Shareholders at a general meeting in July 2013, notice of which will be circulated separately. These Financial Statements have been drawn up on the basis that the position is regularised by these proposed resolutions. The proposals do not affect the results of the Company for the years to 31 March 2013 or 31 March 2012, its net assets at 31 March 2013 or 31 March 2012, or its ability to pay future dividends.

## Share Capital

As shown in note 11 of the Financial Statements, the Company has only one class of share, being ordinary shares of 10.0 pence each.

## Buy-Back and Issue of Ordinary Shares

In accordance with the Company's stated buy-back policy the Company purchased during the year, under the existing authority granted by Shareholders at the Annual General Meeting on 20 July 2012, ordinary shares of 10.0 pence each in the market (as disclosed in the table below) for aggregate consideration of £705,523. These shares are held in treasury.

Under the existing authority, which expires on the earlier of 20 July 2015, or at the conclusion of the Annual General Meeting held in 2015, the Company has the power to purchase shares up to 14.99 per cent of the Company's issued ordinary share capital as at 13 June 2012, being 5,930,868 ordinary shares.

The directors have unconditional authority to allot shares in the Company or to grant rights to subscribe for or to convert any security into ordinary shares in the Company until 18 March 2014 in connection with the following:

- the joint Offer with British Smaller Companies VCT2 plc (which closed on 30 April 2013), up to an aggregate nominal amount of £1,500,000;
- an offer of shares by the way of a rights issue;
- an allotment of shares for cash up to an aggregate nominal amount of 10 per cent of the issued ordinary share capital of the Company immediately following the final closing of the joint Offer on 30 April 2013.

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

During the year to 31 March 2013 a total of 6,212,225 ordinary shares were issued, of which 445,427 were issued under the Company's dividend re-investment scheme. Subsequent to the year end the Company allotted ordinary shares under the joint Offer with British Smaller Companies VCT2 plc and also in response to an application by an individual Shareholder. Further details are given in note 11 on page 60.

## Buy-Back of Ordinary Shares

Date	Number of ordinary shares of 10p bought-back	Percentage of issued share capital at that date	Consideration paid per ordinary share (pence)
14 June 2012	301,493	0.76%	85.00
29 June 2012	52,614	0.13%	85.00
21 November 2012	333,603	0.85%	80.35
28 March 2013	167,463	0.38%	81.50

In order to ensure the directors retain the authority to allot ordinary shares in the Company (other than pursuant to its dividend re-investment scheme) until the Annual General Meeting in 2014, it is recommended that the authority to allot shares is renewed at the Annual General Meeting for up to an aggregate nominal amount representing approximately 10 per cent of the issued ordinary share capital of the Company (as at the date of the Notice of Annual General Meeting), with all existing authorities to allot, other than the existing authority to allot pursuant to the Company's dividend re-investment scheme, being revoked.

Resolutions are also proposed at the Annual General Meeting to extend the life of the dividend re-investment scheme (and the authority of the directors to allot shares pursuant to the scheme) until 2018.

## Changes to the Company's Reserves

On 13 March 2013, the amount standing to the credit of the share premium account as at 5 May 2011 was cancelled pursuant to an order of court following the passing of a special resolution. The credit arising of £21,063,637 has been transferred to a Special Reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied.

## Capital Disclosures

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

- the Company's capital structure is summarised in note 11 of the Financial Statements. Each ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there are no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employee share scheme; the rules concerning the appointment and replacement of directors, amendments to the Articles of Association and powers

to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;

- there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- with the exception of the Fund Manager's Incentive Agreement, more details of which can be found in note 3 of the Financial Statements, there are no agreements between the Company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

## Trade Payables Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. Although the Company has no trade payables at the year end, the average number of payable days during the year was 22 (2012: 21).

## Environment

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

## Directors and their Interests

The directors of the Company at 31 March 2013, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 41 to 42.

## Substantial Shareholdings

The directors are not aware of any substantial shareholdings representing 3 per cent or more of the Company's issued share capital as at 31 March 2013 and the date of this Report.

## Independent Auditor

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

## Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 66 to 68.

The business of the meeting includes a resolution (Resolution 8) to be proposed to authorise the directors to issue and allot new ordinary shares up to an aggregate nominal amount representing approximately 10 per cent of the ordinary share capital of the Company in issue at 11 June 2013 and a special resolution (Resolution 12) proposed to empower the directors to allot ordinary shares up to an aggregate nominal amount representing approximately 10 per cent of the issued ordinary share capital of the Company as at 11 June 2013, without regard to any rights of pre-emption on the part of the existing Shareholders.

The directors believe this to be in the Company's interest as from time to time the Company is approached by persons interested in purchasing new ordinary shares and if so authorised the directors will be able to respond positively to such applications.

Resolution 10 is proposed to continue the Company's dividend re-investment scheme until the beginning of the Annual General Meeting in 2018. The Company's dividend re-investment scheme currently terminates on 11 January 2016 and this proposed extension of its life will ensure its expiry coincides with the duration of the Company.

Resolution 11 is proposed to authorise the directors to issue and allot new ordinary shares pursuant to the dividend re-investment scheme up to an aggregate nominal amount of £700,000, representing approximately 14 per cent of the ordinary share capital of the Company in issue as at 11 June 2013. This resolution will replace

the existing authority the directors have to allot shares pursuant to the dividend re-investment scheme to reflect a new maximum number of shares which are permitted to be allotted under the authority,

A special resolution is also included (Resolution 13) to empower the directors to allot shares pursuant to the dividend re-investment scheme authority contained in Resolution 11 without regard to any rights of pre-emption on the part of existing Shareholders.

Also included is an ordinary resolution (Resolution 9) to authorise the Company to communicate with Shareholders by electronic means (for example by email or by publishing the information on a website). At the current time (and subject to the passing of this resolution) there is no intention to implement this form of communication and before doing so the Company will write to Shareholders individually to request their personal consent to send information and otherwise communicate with them by electronic means. If any Shareholder does not wish to consent the Company will continue to send information and otherwise communicate with them by post.

The directors believe that the proposed resolutions are in the interest of Shareholders and accordingly recommend Shareholders to vote in favour of each resolution.

## VCT Status Monitoring

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

PricewaterhouseCoopers LLP reviews new investment opportunities as appropriate and carries out regular reviews of the Company's investment portfolio under the instruction of the Fund Manager to ensure legislative requirements are properly assessed.

## Events after the Balance Sheet Date

On 22 May 2013 the Company completed an investment of £0.2 million into AB Dynamics plc, a business that designs, manufactures and supplies vehicle testing technology. On

3 April 2013 the Company invested a further £0.02 million into GO Outdoors Limited.

The £1.3 million of non-qualifying loans to Seven Technologies Holdings Limited have been repaid as part of the funding package for the proposed acquisition of Datong plc.

Subsequent to the year end, the Company allotted ordinary shares under the joint Offer with British Smaller Companies VCT2 plc, as detailed in note 11 to the Financial Statements on page 60.

On 18 April 2013 Cambridge Cognition Limited, now Cambridge Cognition Holdings plc, successfully listed on AIM raising £5.0 million.

## Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations. They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these Financial Statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

The directors confirm, to the best of their knowledge, that:

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

## Corporate Governance

The Board is committed to the principle and application of sound corporate governance and confirms that the Company has taken steps, appropriate to a Venture Capital Trust and relevant to its size and operational complexity, to comply with The UK Corporate Governance Code, June 2010 (the "Code", a copy of which can be found on the website of the Financial Reporting Council at [www.frc.org.uk](http://www.frc.org.uk)).

The Listing Rules of the UK Listing Authority require the Board to report on compliance with the provisions of The UK Corporate Governance Code and the Directors' Report and the Directors' Remuneration Report describe how the principles identified in the Code have been applied during the year, except where disclosed below.

The Board has complied throughout the year, and up to the date of this Report, with The UK Corporate Governance Code, except for those provisions relating to the appointment of a chief executive and a recognised senior independent non-executive director and the presumption concerning the Chairman's independence. In addition, although 21 days' clear notice of the Annual General Meeting has been given to Shareholders, the Company has not complied with the recommendation by the Code to give 20 business days' notice due to restrictions imposed by the timetabling of the AGM.

### Role of the Board

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

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

The significant directorships and time commitments (as disclosed on page 28) of all directors including the Chairman are assessed by the Board both on appointment and as changes arise. The only significant change to the directors' commitments during the year has been that the Chairman has stepped down from the board of Octopus Eclipse VCT3 plc.

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

### Board Composition

The Board consists of three non-executive directors including the Chairman, all of whom are regarded by the Board as independent and also as independent of the Company's Fund Manager. During the year Mr P S Cammerman has been a related party to two of the Company's quoted portfolio companies as set out in note 17 of the Financial Statements and has been on the Board for more than nine years. The Board considers that Mr P S Cammerman remains a committed and independent non-executive director given, but not limited to, the following; the companies' listed status, their incidental contribution to the Company's overall portfolio, the fact that Mr P S Cammerman has no voting rights in the companies and the minimal level of his shareholding. The independence of the Chairman was assessed upon her appointment.

Although The UK Corporate Governance Code presumes that the chairman of a company is deemed not to be an independent director, the remaining

directors, having considered the nature of the role in the Company, are satisfied that Helen Sinclair fulfils the criteria for independence as a non-executive director. The directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 28.

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.

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

### Boardroom Diversity

The Board is committed to ensuring that the Company is run in the most effective manner. Consequently the Board monitors the diversity of all directors to ensure an appropriate level of experience and qualification.

The Board believes in the value and importance of diversity in the boardroom but does not consider that it is appropriate or in the best interests of the Company and its Shareholders to set prescriptive targets for gender or nationality on the Board.

Diversity of thought, experience, and approach are all important and the directors will always seek to appoint on merit against objective criteria.

## 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, it is the Board's policy that a director's appointment will run for a term of a year until the next Annual General Meeting. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the director to seek a further term. The Board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of The UK Corporate Governance Code, including the need to refresh the Board and its Committees.

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

The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting. There are no set minimum notice periods for Ms H Sinclair or Mr P S Cammerman, though Mr C W E R Buchan's appointment is terminable by him or the Company on three months' notice.

The directors recommend the re-election of Ms H Sinclair, Mr C W E R Buchan and Mr P S Cammerman at this year's Annual General Meeting, because of their commitment, experience and continued contribution to the Company.

## Meetings and Committees

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

The table below details the number and function of the meetings attended by each director. There were no Nominations Committee meetings held during the year.

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

## Training and Appraisal

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

The performance of the Board has been evaluated in respect of the financial year ended 31 March 2013. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively.

The factors taken into account were based on the relevant provisions of The UK Corporate Governance Code and included attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of their contribution. Particular attention is paid to those directors who are due for re-election. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

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

## Remuneration Committee

During the year the Remuneration Committee consisted of three directors who were considered by the Board to be independent of the Fund Manager, being Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan. The Chairman of the Board acted as the Chairman of the Remuneration Committee. The Committee met once in the year. The Remuneration Committee reviewed the Company's remuneration policy so as to determine and agree the remuneration to be paid to each director of the Company and was responsible for the production of the Directors' Remuneration Report which may be found on pages 41 and 42.

The Remuneration Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting and on the Fund Manager's website at [www.yfmep.com](http://www.yfmep.com).

Following the end of the financial year the Board has decided to combine the Remuneration Committee with the Nominations Committee to form a Nominations and Remuneration Committee, details of which may be found on page 37.

## Meetings and Committees

Meetings attended	Ms H Sinclair	Mr P S Cammerman	Mr C W E R Buchan
Board meetings	8	8	8
Audit Committee meetings	2	2	2
Allotment Committee meetings	5	1	1
Investment Committee meetings	9	9	9
Remuneration Committee meetings	1	1	1
General meetings	2	2	2
Telephone conferences	2	2	2

## Audit Committee

The Audit Committee consists of Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan and meets at least twice a year. The directors consider that it is appropriate that the Chairman of the Committee should be Mr C W E R Buchan. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

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

Representatives of the Company's auditor attend the Audit Committee meeting at which the draft Annual Report and Financial Statements are considered. The directors' statement on the Company's system of internal control is set out on page 38.

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

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

The Audit Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting and on the website of the Fund Manager at [www.yfmep.com](http://www.yfmep.com).

## Investment Committee

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

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

The Investment Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting and on the Fund Manager's website at [www.yfmep.com](http://www.yfmep.com).

## Nominations Committee

During the year the Company had a Nominations Committee which consisted of Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan, all of whom were considered by the Board to be independent of the Fund Manager. The Chairman of the Board acted as Chairman of the Committee, save in the event the Committee was to meet to consider a successor to the Chairmanship.

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

The Nominations Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting and on the Fund Manager's website at [www.yfmep.com](http://www.yfmep.com).

Following the end of the financial year the Board has decided to combine the Remuneration Committee with the Nominations Committee to form a Nominations and Remuneration Committee.

The new committee consists of three directors who are considered to be independent of the Fund Manager, this currently being Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan. Mr C W E R Buchan is the Chairman of the Committee. New terms of reference are being produced which will in due course be available for inspection on request at the Company's registered office and on the Fund Manager's website at [www.yfmep.com](http://www.yfmep.com).

## Allotment Committee

The Company has an Allotment Committee which consists of the directors who are considered by the Board to be independent of the Fund Manager. The quorum for Committee meetings is one director, unless otherwise determined by the Board.

The Committee considers and, if appropriate, authorises the allotment of shares. The Committee ensures that the total number of shares to be issued does not exceed the authority given by Shareholders. There are no written terms of reference.

## Relations with Shareholders

The Board regularly monitors the Shareholder profile of the Company. It aims to provide Shareholders with a full understanding of the Company's activities and performance, and reports formally to Shareholders twice a year by way of the Annual Report and the Interim Report. This is supplemented by an annual newsletter, the daily publication of the Company's share price and the publication for the two quarters of the year where an Annual or Interim Report is not issued (30 June and 31 December), through the London Stock Exchange, of the Net Asset Value of the Company together with a factsheet detailing developments for the Company in that quarter.

All Shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Fund Manager are available in person to meet with and answer Shareholders' questions. In addition, representatives of the Fund Manager periodically hold Shareholder workshops which review the Company's performance and industry developments, and which give Shareholders a further opportunity to meet members of the Board

and chief executives of some of the investee companies. During the year, the Company's Fund Manager has held regular discussions with Shareholders. The directors are made fully aware of Shareholders' views. The Chairman and directors make themselves available, as and when required, to address Shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 28.

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

## Internal Control and Risk Management

Under an agreement dated 28 February 1996, as varied by agreements dated 1 July 2009 and 16 November 2012, the executive functions of the Company have been sub-contracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- a clearly defined investment strategy for YFM Private Equity Limited, the Fund Manager to the Company;
- all decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Fund Manager, save for those in respect of quoted investments which are taken by the Fund Manager (as regards new investment, in conjunction with the Chairman of the Investment Committee) in accordance with the terms set out on page 39;
- regular reviews of the Company's investments, liquid assets and liabilities, and revenue and expenditure;
- regular reviews of compliance with the VCT regulations to retain status;
- the Audit Committee reviews the internal control procedures adopted by the Fund Manager and the Board approves annual budgets prepared by the Fund Manager; and

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

The Board confirms the procedures to implement the guidance detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 in terms of maintaining sound risk management and internal control systems were in place throughout the year ended 31 March 2013 and up to the date of this Report.

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

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

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

- a robust system of internal control is maintained by the Fund Manager over the preparation and reconciliation of investment portfolio valuations;
- monthly reconciliation of assets held as fixed income securities and cash;
- independent review of the valuations of portfolio investments by the Board (quarterly) and the external auditor (annually);
- the Audit Committee review of financial reporting and compliance (as set out on page 37); and
- the Board reviews financial information including the Annual Report, Interim Report and interim management statements prior to their external communication.

The Board has reviewed the effectiveness of the Company's systems of internal control and risk management for the year to the date of this Report. The Board is of the opinion that the Company's systems of internal, financial and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company.

## Conflicts of Interest

The directors have declared any conflicts or potential conflicts of interest to the Board which has the authority to authorise such situations if appropriate. The Company Secretary maintains the Register of Directors' Interests which is reviewed quarterly by the Board, when changes are notified, and the directors advise the Company Secretary and the Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest which have been approved by the Board do not take part in discussions or decisions which relate to any of their conflicts.

## Anti-Bribery and Corruption Policy

The Company has adopted a zero tolerance approach to bribery. The following is a summary of its policy:

- it is the Company's policy to conduct all of its business in an honest and ethical manner. The Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships;

- the directors of the Company, the Fund Manager and any other service providers must not promise, offer, give, request, agree to receive or accept financial or other advantage in return for favourable treatment, to influence a business outcome or gain any business advantage on behalf of the Company or encourage others to do so; and
- the Company has communicated its anti-bribery policy to the Fund Manager.

### Corporate Governance in relation to Investee Companies

The Company delegates responsibility for monitoring its investments to its Fund Manager whose policy, which has been noted by the Board, is as follows:

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

### Going Concern

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

The Company has considerable financial resources, a carefully controlled cost base and investments across various industry sectors. In addition, following the year end the Company further increased its investment capabilities with £10.3 million of gross funds being raised via the joint Offer with British Smaller Companies VCT2 plc.

The directors believe these factors have placed the Company in a strong position to

take advantage of new investment opportunities despite the uncertain economic outlook and with this in mind have sought to further increase the investment capacity of the Company this year.

The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient resources to meet its obligations for a period of at least 12 months from the date of signing these Financial Statements. The directors therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing the Financial Statements.

### Investment Objectives

The investment objective of the Company is to achieve long term investment returns for private investors, including tax free dividends.

### 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.

### Investment in Securities

During the year the Company has targeted investments in UK businesses across a range of sectors including but not limited to Industrial, Telecommunications, Software and IT, Healthcare, Retail and Consumer products in VCT qualifying and non-qualifying unquoted and AIM quoted securities. Although the majority of investments will be in equities, in appropriate circumstances preference shares and loan stock may be subscribed for thereby spreading risk and enhancing yields.

### VCT Regulation

The investment policy is designed to ensure that the Company continues to qualify and is approved as a VCT by HM Revenue and Customs. Investments are made in accordance with the VCT legislation outlined on page 31.

### Borrowing Requirements

The Company funds its investment programme out of its own resources and has no borrowing facilities for this purpose.

### Co-Investment

Typically the Company invests alongside other venture capital funds, such as syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this Annual Report. Co-investments are detailed in note 7 to the Financial Statements on pages 57 and 58.

### Management

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

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

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

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

The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in a portfolio of Government stocks or other similar fixed interest securities. Reporting to the Fund Manager, these securities are managed by Brewin Dolphin on a discretionary basis and the Board receives regular reports on the make-up and market valuation of the portfolio. At the year end £2.5 million of Government stock was held in this fund. In addition the Fund Manager also invests surplus funds in fixed rate bank deposits. At the year end £1.5 million was held with Lloyds TSB plc.

## Financial Instruments

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

## Financial Assets

Investments made in suitable qualifying holdings will predominantly comprise ordinary shares with, in some instances, either fixed rate coupon preference shares, unsecured loan stocks or debenture loans. Each investment is valued in accordance with the policy set out on page 27 of this Annual Report. Investments in fixed interest securities are valued at their market value as at the Balance Sheet date.

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

Due to the structure of certain investments, preference share redemptions and loan stock repayments may become due during the term of the investment. These are

usually at fixed dates, although in some instances the investee company has the option of repaying earlier. In some instances the redemption carries a premium repayment.

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

Investments in fixed interest 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 2013 can be found in the Fund Manager's Review and notes 7 and 19 to these Financial Statements.

## Administration

YFM Private Equity Limited has acted as Fund Manager and performed administrative and secretarial duties for the Company since 28 February 1996. The principal terms of the agreement are set out in note 3 to the Financial Statements. YFM Private Equity Limited is authorised and regulated by the Financial Conduct Authority.

Following approval of the relevant resolution at the Annual General Meeting of the Company held in August 2009 the incentive scheme set out in the Subscription Rights Agreement dated 28 February 1996 was replaced by a revised incentive agreement dated 7 July 2009 ("the Incentive Agreement"). Under the Incentive Agreement the Fund Manager will receive an incentive payment equal to 20 per cent of the amount by which dividends paid in the relevant accounting period exceed 4.0 pence per ordinary share (increasing in line with

RPI) once cumulative dividends of 10.0 pence per ordinary share from 1 April 2009 have been paid. These incentive payments are subject to cumulative shortfalls in any prior accounting periods being made up and the average Net Asset Value per ordinary share in the relevant accounting period being not less than 94.0 pence per ordinary share, as adjusted for the impact of share issues and buy-backs.

No payment can be made in respect of the year to 31 March 2013 under the Incentive Agreement unless the average Net Asset Value of the Company is above the adjusted target of 93.4 pence per ordinary share and in addition at least 4.6 pence per ordinary share in dividends has been paid to Shareholders. Payment is made five business days after the relevant Annual General Meeting at which the audited accounts are presented to Shareholders.

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

In the year ended 31 March 2013, £38,678 has accrued to the Fund Manager under the Incentive Agreement (31 March 2012: £1,415,361).

This Report was approved by the Board on 11 June 2013 and signed on its behalf by:



**Helen Sinclair**  
**Chairman**  
**British Smaller Companies VCT plc**  
**Registered number 03134749**

# Directors' Remuneration Report

## Directors and their Interests

The directors of the Company and their beneficial interests in the share capital of the Company (including those of immediate family members) at 31 March 2013 are shown in Table A. None of the directors held any options to acquire additional shares at the year end (other than the shares allotted to Mr C W E R Buchan following the year end pursuant to the joint Offer), as shown in Table B.

New ordinary shares were subscribed for and allotted on 31 December 2012 to Ms H Sinclair and Mr P S Cammerman

pursuant to the joint Offer with British Smaller Companies VCT2 plc. Mr C W E R Buchan also subscribed for new ordinary shares under the same Offer and these shares were allotted on 30 April 2013, subsequent to the year end. During the year new ordinary shares were allotted to Mr C W E R Buchan pursuant to the dividend re-investment scheme. Details are shown in Table B.

Brief biographical notes on the directors are given on page 28. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him or her to any benefit other than the remuneration disclosed in Table C,

and no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves office. Further information on the contracts of service are given on page 36.

The Company had no employees in either year.

## Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £75,000 (2012: £75,000) all of which was paid to three (2012: three) individuals for services as directors and none of which was paid to third parties in respect of directors' services.

The total fees paid in respect of individual directors are shown in Table C.

There are no executive directors (2012: none).

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

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

## Remuneration Policy

The Board's policy is that the remuneration of non-executive directors should reflect time spent on the Company's affairs and the responsibility borne by the directors and should be sufficient to enable candidates of a high calibre to be recruited. The levels of directors' fees paid by the Company for the year ended 31 March 2013 were agreed during the year.

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

Directors and their Interests

Table A

	Number of ordinary shares	
	31 March 2013	31 March 2012
Ms H Sinclair	17,004	13,407
Mr P S Cammerman	44,614	41,017
Mr C W E R Buchan	2,082	1,972

Shares Allotted

Table B

	Number of ordinary shares subscribed for and allotted		
	During the year ended 31 March 2013		Since 31 March 2013
	Under the DRIS	Pursuant to the Joint Offer	Pursuant to the Joint Offer
Ms H Sinclair	-	3,597	-
Mr P S Cammerman	-	3,597	-
Mr C W E R Buchan	110	-	3,481

Fees Paid to Directors

Table C

	2013 £	2012 £
Ms H Sinclair	35,000	35,000
Mr P S Cammerman	20,000	20,000
Mr C W E R Buchan	20,000	20,000
	75,000	75,000

## Company Performance

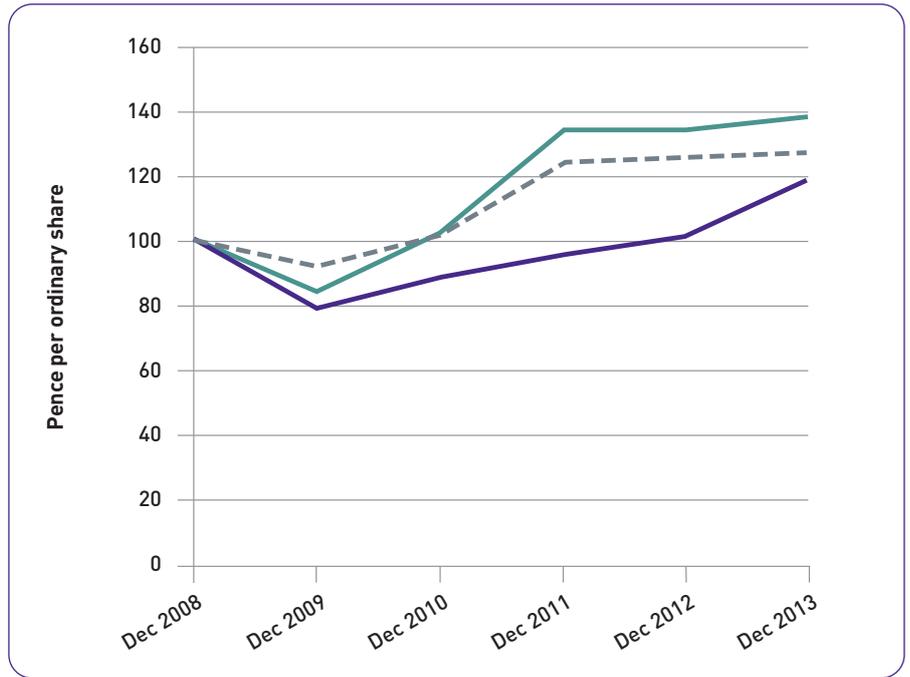
The graph opposite shows a comparison over the last five years of the movements in both the Company's Share Price Total Return (assuming all dividends are re-invested) and the Share Price Total Return for approximately 60 Generalist VCTs as published by the Association of Investment Companies. The directors consider this to be the most appropriate published index on which to report on comparative performance.

Changes in the Company's Net Asset Value Total Return are included on the graph as the Board believes this gives a fairer representation of the Company's long term value to Shareholders. Net Asset Value Total Return is calculated by reference to the Net Asset Value and cumulative dividends paid (see note 13 of these Financial Statements) excluding tax reliefs received by Shareholders.

This Report was approved by the Board on 11 June 2013 and signed on its behalf by:



**Helen Sinclair**  
Chairman



- VCT Generalist Share Price Total Return (Source: Index compiled by AIC)
- Share Price Total Return
- - Net Asset Value Total Return

# Independent Auditor's Report

## To the members of British Smaller Companies VCT plc

We have audited the Financial Statements of British Smaller Companies VCT plc for the year ended 31 March 2013, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the Audit of the Financial Statements

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

### Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other Matters Prescribed by the Companies Act 2006

In our opinion:

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

### Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the Directors' Statement, set out on page 39, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of The UK Corporate Governance Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on directors' remuneration.

### Paul Houghton

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Sheffield  
11 June 2013

# Statement of Comprehensive Income

For the year ended 31 March 2013

	Notes	2013			2012		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	7	–	699	699	–	2,178	2,178
Gains on investments held at fair value	7	–	233	233	–	166	166
Income	2	1,323	–	1,323	1,236	–	1,236
Administrative expenses:	3						
Fund management fee		(188)	(564)	(752)	(201)	(604)	(805)
Incentive fee		–	(39)	(39)	–	(1,415)	(1,415)
Other expenses		(341)	–	(341)	(296)	–	(296)
		(529)	(603)	(1,132)	(497)	(2,019)	(2,516)
<b>Profit before taxation</b>		<b>794</b>	<b>329</b>	<b>1,123</b>	739	325	1,064
Taxation	4	(138)	138	–	(64)	64	–
<b>Profit for the year</b>		<b>656</b>	<b>467</b>	<b>1,123</b>	675	389	1,064
<b>Total comprehensive income for the year</b>		<b>656</b>	<b>467</b>	<b>1,123</b>	675	389	1,064
<b>Basic and diluted earnings per ordinary share</b>	6	<b>1.62p</b>	<b>1.16p</b>	<b>2.78p</b>	1.85p	1.07p	2.92p

The accompanying notes on pages 49 to 65 are an integral part of these Financial Statements.

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

# Balance Sheet

At 31 March 2013

	Notes	2013 £000	2012 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments		27,560	24,200
Fixed income government securities		2,474	2,499
Financial assets at fair value through profit or loss	7	30,034	26,699
<b>Current assets</b>			
Trade and other receivables	8	197	532
Cash on fixed term deposit		1,500	5,000
Cash and cash equivalents	9	10,669	7,372
		12,366	12,904
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	10	(311)	(1,709)
<b>Net current assets</b>		12,055	11,195
<b>Net assets</b>		42,089	37,894
<b>Shareholders' equity</b>			
Share capital	11	4,661	4,039
Share premium account		7,236	23,176
Capital redemption reserve		221	221
Treasury share reserve		(2,753)	(2,048)
Capital reserve		218	-
Investment holding gains		7,681	7,432
Special reserve		23,462	2,408
Revenue reserve		1,363	2,666
<b>Total Shareholders' equity</b>		42,089	37,894
<b>Basic and diluted Net Asset Value per ordinary share</b>	12	97.0p	99.6p

The accompanying notes on pages 49 to 65 are an integral part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board on 11 June 2013 and were signed on its behalf by:



**Helen Sinclair**  
Chairman

# Statement of Changes in Equity

For the year ended 31 March 2013

	Share capital	Share premium account	Capital redemption reserve	Treasury share reserve	Capital reserve	Investment holding gains (losses)	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2011</b>	<b>3,646</b>	<b>19,492</b>	<b>221</b>	<b>(1,866)</b>	<b>(372)</b>	<b>11,780</b>	<b>2,408</b>	<b>5,863</b>	<b>41,172</b>
<i>Revenue return for the year</i>	-	-	-	-	-	-	-	675	675
<i>Capital expenses</i>	-	-	-	-	(1,955)	-	-	-	(1,955)
<i>Gain on investments held at fair value</i>	-	-	-	-	-	166	-	-	166
<i>Gain on disposal of investments in the year</i>	-	-	-	-	2,178	-	-	-	2,178
<b>Total comprehensive income for the year</b>	-	-	-	-	223	166	-	675	1,064
<i>Issue of share capital</i>	250	2,647	-	-	-	-	-	-	2,897
<i>Issue costs*</i>	-	(173)	-	-	-	-	-	-	(173)
<i>Issue of shares – DRIS</i>	143	1,210	-	-	-	-	-	-	1,353
<i>Purchase of own shares</i>	-	-	-	(182)	-	-	-	-	(182)
<i>Dividends</i>	-	-	-	-	(4,365)	-	-	(3,872)	(8,237)
<b>Total transactions with owners</b>	<b>393</b>	<b>3,684</b>	<b>-</b>	<b>(182)</b>	<b>(4,365)</b>	<b>-</b>	<b>-</b>	<b>(3,872)</b>	<b>(4,342)</b>
<b>Realisation of prior year investment holding gains</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,514</b>	<b>(4,514)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 March 2012</b>	<b>4,039</b>	<b>23,176</b>	<b>221</b>	<b>(2,048)</b>	<b>-</b>	<b>7,432</b>	<b>2,408</b>	<b>2,666</b>	<b>37,894</b>
<i>Revenue return for the year</i>	-	-	-	-	-	-	-	656	656
<i>Capital expenses</i>	-	-	-	-	(465)	-	-	-	(465)
<i>Gain on investments held at fair value</i>	-	-	-	-	-	233	-	-	233
<i>Gain on disposal of investments in the year</i>	-	-	-	-	699	-	-	-	699
<b>Total comprehensive income for the year</b>	-	-	-	-	234	233	-	656	1,123
<i>Issue of share capital</i>	577	5,091	-	-	-	-	-	-	5,668
<i>Issue costs*</i>	-	(323)	-	-	-	-	-	-	(323)
<i>Issue of shares – DRIS</i>	45	356	-	-	-	-	-	-	401
<i>Purchase of own shares</i>	-	-	-	(705)	-	-	-	-	(705)
<i>Dividends</i>	-	-	-	-	-	-	-	(1,959)	(1,959)
<b>Total transactions with owners</b>	<b>622</b>	<b>5,124</b>	<b>-</b>	<b>(705)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,959)</b>	<b>3,082</b>
<b>Reduction in share premium account</b>	<b>-</b>	<b>(21,064)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,064</b>	<b>-</b>	<b>-</b>
<b>Reduction in share premium account expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10)</b>	<b>-</b>	<b>(10)</b>
<b>Realisation of prior year investment holding losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(16)</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 March 2013</b>	<b>4,661</b>	<b>7,236</b>	<b>221</b>	<b>(2,753)</b>	<b>218</b>	<b>7,681</b>	<b>23,462</b>	<b>1,363</b>	<b>42,089</b>

The accompanying notes on pages 49 to 65 are an integral part of these Financial Statements.

\*Issue costs include both fundraising costs and expenses incurred from the Company's dividend re-investment scheme.

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

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

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

The special reserve was created following approval of the Court and a resolution of the Shareholders passed on 16 July 1999 to cancel the Company's share premium account. Following the approval of the Court and the passing of a special resolution the amount standing to the credit of the share premium account at 5 May 2011 was cancelled and transferred to the special reserve on 13 March 2013.

The special reserve, capital reserve, revenue reserve and treasury reserve are all included when determining distributable reserves. These reserves total £22,290,000 (2012: £3,026,000) representing an increase of £19,264,000 (2012: £3,007,000 decrease) during the year. This change arises from the profit in the year of £890,000 (2012: £898,000), a transfer of valuation losses from the investment holding reserve of £16,000 (2012: £4,514,000 transfer of valuation profits), dividends of £1,959,000 (2012: £8,237,000), transfer of £21,054,000 (2012: £nil) on the reduction in share premium (net of expenses) and the purchase of own ordinary shares of £705,000 (2012: £182,000). The directors also take into account the level of the investment holding gains (losses) reserve and the future requirements of the Company when determining the level of dividend payments.

# Statement of Cash Flows

For the year ended 31 March 2013

	Notes	2013 £000	2012 £000
<b>Net cash outflow from operating activities</b>	14	<b>(1,098)</b>	(111)
<b>Cash flows from investing activities</b>			
Cash maturing from (placed on) fixed term deposit		<b>3,500</b>	(5,000)
Purchase of financial assets at fair value through profit or loss	7	<b>(6,097)</b>	(3,000)
Proceeds from sale of financial assets at fair value through profit or loss	7	<b>3,801</b>	17,024
<b>Net cash from investing activities</b>		<b>1,204</b>	9,024
<b>Cash flows from (used in) financing activities</b>			
Issue of ordinary shares		<b>5,668</b>	2,897
Cost of ordinary share issue		<b>(349)</b>	(178)
Purchase of own ordinary shares		<b>(569)</b>	(490)
Share premium reduction costs		<b>(1)</b>	-
Dividends paid	5	<b>(1,558)</b>	(6,884)
<b>Net cash from (used in) financing activities</b>		<b>3,191</b>	(4,655)
<b>Net increase in cash and cash equivalents</b>		<b>3,297</b>	4,258
<b>Cash and cash equivalents at the beginning of the year</b>		<b>7,372</b>	3,114
<b>Cash and cash equivalents at the end of the year</b>	9, 15	<b>10,669</b>	7,372

The accompanying notes on pages 49 to 65 are an integral part of these Financial Statements.

# Notes to the Financial Statements

For the year ended 31 March 2013

## 1. Principal Accounting Policies

### Basis of Preparation

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

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

The accounts have been prepared in compliance with the recommendations set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 (SORP) to the extent that they do not conflict with IFRSs as adopted by the European Union.

The Financial Statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. None of the standards and amendments to standards mandatory for the first time for the financial year commencing 1 April 2012 have had an impact on the preparation of the Financial Statements.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these Financial Statements. These include the new standards IFRS 10, IFRS 12 and IFRS 13 in addition to amendments to IFRS 1, IFRS 7, IFRS 9, IAS 1, IAS 19, IAS 27, IAS 28 and IAS 32. A full impact assessment has not yet been completed in order to assess whether these new standards will have a material impact on the Financial Statements.

### Financial Assets Held at Fair Value Through Profit or Loss

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

Investments in quoted Government fixed income securities are classified at fair value through profit or loss under the criteria given above. These are valued at market bid prices.

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

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

Quoted investments are valued at market bid prices.

Unquoted investments are valued in accordance with IAS 39 'Financial instruments: Recognition and Measurement' and, where appropriate, the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines issued in December 2012. A detailed explanation of the valuation policies of the Company is included on page 27.

Although the Company holds more than 20 per cent of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio, and their value to the Company lies in their marketable value as part of that portfolio, so none represent investments in associated undertakings. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates' and IAS 31 'Financial reporting of interest in joint ventures', which give exemptions from equity accounting for venture capital organisations.

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

## 1. Principal Accounting Policies (continued)

### Income

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

### Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Statement of Comprehensive Income, except for fund management and incentive fees. Of the fund management fees 75 per cent are instead allocated to the Capital column of the Statement of Comprehensive Income, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains. The incentive fee payable to the Fund Manager (as set out in note 3) is charged wholly through the Capital column.

Tax relief is allocated to Capital using a marginal basis.

### Cash and Cash Equivalents

Cash and cash equivalents include cash at hand as this meets the definition in IAS 7 'Statement of cash flows' of a short term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

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

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

### Capital Reserve

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

### Investment Holding Gains (Losses) Reserve

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

### Special Reserve

The special reserve was created following the passing of a resolution of the Shareholders on 16 July 1999 and the approval of the Court to cancel the Company's share premium account. Following the approval of the Court and the passing of a special resolution the amount standing to the credit of the share premium account at 5 May 2011 was cancelled and transferred to the special reserve on 13 March 2013. The special reserve is a distributable reserve and is available for other corporate purposes of the Company.

### Taxation

Due to the Company's status as a Venture Capital Trust and the continued intention to meet the conditions required to comply with Chapter 3 Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises. Deferred tax is recognised on all temporary differences that have originated, but not reversed, by the balance sheet date. Deferred tax assets are only recognised to the extent that they are regarded as recoverable. Deferred tax is calculated at the tax rates that are expected to apply when the asset is realised.

### Dividends Payable

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

### Segmental Reporting

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

## 1. Principal Accounting Policies (continued)

### Critical Accounting Estimates and Judgements

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

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

## 2. Income

	2013 £000	2012 £000
Dividends from unquoted companies	20	353
Dividends from quoted companies	87	69
	<b>107</b>	422
Interest on loans to unquoted companies	1,017	506
Fixed interest Government securities	58	155
	<b>1,182</b>	1,083
Income from investments held at fair value through profit or loss	141	153
Interest on deposits		
	<b>1,323</b>	1,236

## 3. Administrative Expenses

	2013 £000	2012 £000
Fund management fee	752	805
Other expenses:		
Administration fee	56	54
Incentive fee	39	1,415
Directors' remuneration (comprises only short term benefits including social security contributions)	81	83
Auditor's remuneration – audit fees (excluding irrecoverable VAT)	18	17
General expenses	186	142
	<b>1,132</b>	2,516

No fees are payable to the auditor in respect of other services (2012: £nil).

In line with the Association of Investment Companies (AIC's) recommended methodology, the Company's "ongoing charges percentage", calculated as the Annualised ongoing charges (excluding irrecoverable VAT and trail commission)/Annualised undiluted Net Asset Value, in the period is currently 2.7 per cent (2012: 2.6 per cent).

This methodology replaced the Total Expense Ratio (TER%) in June 2012 as the AIC's recommended operational expenses benchmark.

The Total Expense Ratio (TER%), calculated as the total fund costs (less trail commission and irrecoverable VAT)/ Total Net Assets, is currently set at 3.25 per cent. The TER% for the year to 31 March 2013 is 2.5 per cent (31 March 2012: 2.8 per cent).

### 3. Administrative Expenses (continued)

YFM Private Equity Limited provides fund management services to the Company under a subscription rights agreement dated 28 February 1996 ("Subscription Rights Agreement") as varied by agreements dated 1 July 2009 and 16 November 2012. The agreement may be terminated by not less than 12 months' notice given by either party at any time. No notice has been issued to or by YFM Private Equity Limited terminating the contract as at the date of this Report.

The key features of the agreement are:

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2 per cent of gross assets less current liabilities, calculated at half-yearly intervals as at 31 March and 30 September. The fund management fee is allocated between capital and revenue as described in note 1.
- Under this same agreement YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee based on £35,000 (at 28 February 1996) per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue.
- Under a deed of variation dated 16 November 2012 YFM Private Equity Limited shall bear the annual operating costs (excluding VAT and trail commissions payable to financial intermediaries) of the Company to the extent that these costs exceed 3.25 per cent of its Net Asset Value.

The total fund management fee and administrative and secretarial fees payable to YFM Private Equity Limited in the year was £808,000 (2012: £859,000). The excess expenses during the year payable to the Company from YFM Private Equity Limited amounted to £nil (2012: £nil).

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

No payment can be made in respect of the year to 31 March 2013 under the Incentive Agreement unless the average Net Asset Value of the Company is above the adjusted target of 93.4 pence per ordinary share and in addition at least 4.6 pence per ordinary share in dividends has been paid to Shareholders. Payment is made five business days after the relevant Annual General Meeting at which the audited accounts are presented to Shareholders.

Both in the current and prior year, the Fund Manager had achieved its adjusted targets and £38,678 (2012: £1,557,336) has been provided within trade and other payables. The incentive fee is payable following the Annual General Meeting on 19 July 2013.

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

Under the terms of the offer for subscription launched on 6 March 2012, YFM Private Equity Limited was entitled to 4.75 per cent of gross subscriptions (before any early investment incentive and re-investment of intermediary commission), which amounted to £123,786 in total, with £72,578 in the year to 31 March 2013.

Under the terms of the joint Offer with British Smaller Companies VCT2 plc launched on 16 November 2012 (which closed on 30 April 2013), YFM Private Equity Limited was entitled to 5.5 per cent of gross subscriptions (before any early investment incentive and re-investment of intermediary commission) for all applications on or before 28 December 2012. After this date YFM Private Equity Limited was entitled to 5.5 per cent of gross subscriptions from execution brokers and 3.5 per cent of gross subscriptions for applications directly from applicants or through intermediaries offering financial advice. This amounted to £512,814 in total, with £227,685 in the year to 31 March 2013.

YFM Private Equity met all costs and expenses arising from these offers out of these fees, including any early investment incentive and any payment or re-investment of initial intermediary commission (excluding permissible trail commission, which will continue to be met by the Company).

## 4. Taxation

	2013			2012		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	<b>794</b>	<b>329</b>	<b>1,123</b>	739	325	1,064
Profit before taxation multiplied by standard small company rate of corporation tax in the UK of 20%	<b>159</b>	<b>66</b>	<b>225</b>	148	65	213
<b>Effect of:</b>						
UK dividends received	<b>(21)</b>	–	<b>(21)</b>	(84)	–	(84)
Non taxable profits on investments	–	<b>(187)</b>	<b>(187)</b>	–	(469)	(469)
Excess management expenses	–	<b>(17)</b>	<b>(17)</b>	–	340	340
Tax charge (credit)	<b>138</b>	<b>(138)</b>	–	64	(64)	–

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

Deferred tax assets of £617,507 (2012: £634,307) calculated at 20 per cent in respect of unrelieved management expenses of £3,087,537 as at 31 March 2013 (31 March 2012: £3,171,537) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which the assets can be recovered.

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

## 5. Dividends

Amounts recognised as distributions to equity holders in the year to 31 March:

	2013			2012		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 March 2012 of 3.0p per ordinary share (2012: 3.0p per ordinary share)	<b>1,176</b>	–	<b>1,176</b>	1,072	–	1,072
Special dividend of 18.0p per ordinary share paid on 22 August 2011	–	–	–	2,064	4,365	6,429
Interim dividend of 2.0p per ordinary share (2012: 2.0p per ordinary share)	<b>783</b>	–	<b>783</b>	736	–	736
	<b>1,959</b>	–	<b>1,959</b>	3,872	4,365	8,237
Shares issued under the DRIS			<b>(401)</b>			(1,353)
Dividends paid in the Statement of Cash Flows			<b>1,558</b>			6,884

The final dividend of 3.0 pence per ordinary share in respect of the year to 31 March 2012 was paid on 17 August 2012 to Shareholders on the register at 13 July 2012.

The interim dividend of 2.0 pence per ordinary share was paid on 14 January 2013 to Shareholders on the register at 14 December 2012.

A final dividend of 3.5 pence per ordinary share in respect of the year to 31 March 2013 has been proposed, and a special dividend of 1.0 pence per ordinary share, amounting to £2.2 million, has been declared by the Board. These dividends have not been recognised in the year ended 31 March 2013 as the obligation did not exist at the Balance Sheet date.

## 6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to equity Shareholders of £1,123,000 (2012: £1,064,000) and 40,389,708 (2012: 36,441,889) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue return per ordinary share is based on the revenue profit for the year attributable to equity Shareholders after tax of £656,000 (2012: £675,000) and 40,389,708 (2012: 36,441,889) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted capital return per ordinary share is based on the capital profit for the year after tax attributable to equity Shareholders of £467,000 (2012: £389,000) and 40,389,708 (2012: 36,441,889) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company issued 6,212,225 new ordinary shares. The Company also repurchased 855,173 of its own ordinary shares, which are held in treasury.

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

After the year end the Company issued 6,400,143 new ordinary shares (note 11). If these ordinary shares had been issued on 31 March 2013 the weighted average number of ordinary shares in issue during the year would have been 40,407,171 and there would have been no change in the basic and diluted earnings per ordinary share figures shown at the foot of the Statement of Comprehensive Income.

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

IFRS 7, in respect of financial instruments that are measured in the balance sheet at fair value, requires disclosure of fair value measurements by level within the following fair value measurement hierarchy:

- **Level 1:** quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1 and comprise mostly AIM quoted investments (with one investment traded on ISDX Growth Market) or government and other fixed income securities classified as held at fair value through profit or loss.
- **Level 2:** the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The Company held no such instruments in the current or prior year.
- **Level 3:** the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

There have been no transfers between these classifications in the period (2012: none). The change in fair value for the current and previous year is recognised through profit or loss.

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

Movements in investments at fair value through profit or loss during the year to 31 March 2013 are summarised as follows:

IFRS 7 measurement classification	Level 3*	Level 1	Level 1		Total Investments £000
	Unquoted Investments	Quoted Equity Investments	Total Quoted and Unquoted	Fixed Income Securities	
	£000	£000	£000	£000	
Opening cost	11,781	3,529	15,310	2,383	17,693
Opening valuation gain	8,698	192	8,890	116	9,006
<b>Opening fair value at 1 April 2012</b>	<b>20,479</b>	<b>3,721</b>	<b>24,200</b>	<b>2,499</b>	<b>26,699</b>
Additions at cost	4,854	341	5,195	902	6,097
Capitalised interest	18	–	18	–	18
Disposal proceeds	(2,112)	(695)	(2,807)	(901)	(3,708)
Net profit on disposal*	587	100	687	8	695
Change in fair value	811	(544)	267	(34)	233
<b>Closing fair value at 31 March 2013</b>	<b>24,637</b>	<b>2,923</b>	<b>27,560</b>	<b>2,474</b>	<b>30,034</b>
Closing cost	15,084	3,366	18,450	2,427	20,877
Closing valuation gain (loss)	9,553	(443)	9,110	47	9,157
<b>Closing fair value at 31 March 2013</b>	<b>24,637</b>	<b>2,923</b>	<b>27,560</b>	<b>2,474</b>	<b>30,034</b>

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

\*The net profit on disposal in the table above is £695,000 whereas that shown in the Statement of Comprehensive Income and the table at the bottom of page 56 is £699,000. The difference comprises deferred proceeds of £4,000 in respect of assets which have been disposed and are not included within the investment portfolio at the year end.

Movements in investments at fair value through profit or loss during the year to 31 March 2012 are summarised as follows:

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

All of the changes in fair value during the year related to assets held at 31 March 2012.

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

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

	2013			2012		
	Level 1 £000	Level 3 £000	Total £000	Level 1 £000	Level 3 £000	Total £000
<b>Opening fair value at 1 April 2012</b>	<b>6,220</b>	<b>20,479</b>	<b>26,699</b>	12,737	25,746	38,483
Additions at cost	1,243	4,854	6,097	602	2,398	3,000
Capitalised interest	–	18	18	–	11	11
Disposal proceeds	(1,596)	(2,112)	(3,708)	(7,268)	(9,871)	(17,139)
Net profit on disposal	108	587	695	117	2,061	2,178
Change in fair value	(578)	811	233	32	134	166
<b>Closing fair value at 31 March 2013</b>	<b>5,397</b>	<b>24,637</b>	<b>30,034</b>	6,220	20,479	26,699

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect change in fair value of financial assets held at the price of recent investment, or to adjust earnings multiples.

The standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The portfolio has been reviewed and both downside and upside possible alternatives have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives the value of the unquoted investments would be £2,706,000 (11.0 per cent) lower. Using the upside alternative the value would be increased by £3,748,000 (15.2 per cent).

The total of fair value adjustments below cost made against unquoted investments at 31 March 2013 amounted to £1,655,000 (2012: £248,000).

There have been no individual fair value adjustments downwards during the year that exceeded five per cent of the total assets of the Company (2012: downwards revaluation of the investment in GO Outdoors Limited totalling £3.56 million representing 9.0 per cent of total assets of the Company at 31 March 2012).

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

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

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 April 2012 £000	Profit (loss) on disposal £000
Fishawack Limited	1,303	878	896	407
Primal Pictures Limited	588	468	406	182
Tikit Group plc*	541	150	438	103
EKF Diagnostics Holdings Limited	121	62	106	15
Seven Technologies Holdings Limited	222	222	222	–
Straight plc*	32	109	52	(20)
	<b>2,807</b>	<b>1,889</b>	<b>2,120</b>	<b>687</b>
<i>Deferred proceeds:</i>				
Primal Pictures Limited	4	–	–	4
<b>Total proceeds from quoted and unquoted investments</b>	<b>2,811</b>	<b>1,889</b>	<b>2,120</b>	<b>691</b>
Fixed income securities	901	858	893	8
<b>Total</b>	<b>3,712</b>	<b>2,747</b>	<b>3,013</b>	<b>699</b>

\*Designates AIM quoted company

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

The following disposals took place in 2012 (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale	Cost	Opening carrying value as at 1 April 2011	Profit (loss) on disposal
	£000	£000	£000	£000
GO Outdoors Limited	6,536	42	4,461	2,075
Adex Bridge Limited	1,753	1,750	1,750	3
4G Capital Limited	984	1,000	1,000	(16)
RMS Group Holdings Limited	360	360	360	–
Hargreaves Services plc*	329	152	283	46
Waterfall Services Limited	233	233	233	–
Patsystems plc*	115	222	172	(57)
Tikit Group plc*	92	31	69	23
Belgravium Technologies plc*	22	35	11	11
Straight plc*	1	1	1	–
Denison Mayes Group Limited	5	5	5	–
<b>Total proceeds from quoted and unquoted investments</b>	<b>10,430</b>	<b>3,831</b>	<b>8,435</b>	<b>2,085</b>
Fixed income securities	6,709	6,614	6,616	93
<b>Total</b>	<b>17,139</b>	<b>10,445</b>	<b>14,961</b>	<b>2,178</b>

\*Designates AIM quoted company.

### Significant Interests

At 31 March 2013 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No. of shares	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Bagel Nash Group Limited	Food Retail	39,428	6.80%	33.20%
Dryden Human Capital Group Limited	Recruitment	80,408	7.77%	34.87%
Deep-Secure Ltd	Software	100,000	16.29%	57.00%
DisplayPlan Holdings Limited	Retail	2,340	22.75%	12.25%
Ellfin Home Care Limited	Healthcare	71,089	16.02%	57.96%
Fairlight Bridge Limited	Turnaround	2	50.00%	–
Harris Hill Holdings Limited	Recruitment	65,714	10.70%	26.80%
Harvey Jones Holdings Limited	Consumer Retail	77,715	6.88%	23.24%
Insider Technologies (Holdings) Limited	Software	289,800	25.80%	17.20%
Lightmain Company Limited	Manufacturing	1,178,575	33.00%	–
President Engineering Group Ltd	Manufacturing	200	20.00%	–
RMS Group Holdings Limited	Industrial	153,293	8.10%	23.40%
Seven Technologies Holdings Limited	Manufacturing	500,000	6.25%	20.83%
Waterfall Services Limited	Support Services	100,010	19.53%	4.88%

Commonly managed funds refer to those funds also under the management of YFM Private Equity Limited, the Fund Manager to the Company, and other fund managers which are also part of the YFM Equity Partners Limited group.

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

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

YFM Private Equity Limited, the Company's Fund Manager, also acts as fund manager to certain other funds under its management that have invested in some of the companies within the current portfolio of the Company. Furthermore, certain portfolio companies have been invested in by funds managed by other fund managers within YFM Equity Partners Limited. Details of these investments are summarised below. The amounts shown below are the net cost of investments as at 31 March 2013 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies EIS Fund	Yorkshire and Humber Equity Fund No. 1 LP	The Capital Fund No. 1 LP	The Partnership Investment Equity Fund Limited Partnership	British Smaller Companies VCT2 plc	North West Business Investment Scheme	The Chandos Fund LP	Total managed at cost in other funds
	£000	£000	£000	£000	£000	£000	£000	£000
Bagel Nash Group Limited	-	-	-	-	419	-	2,618	3,037
Bluebell Telecom Group Limited	-	-	-	-	500	-	-	500
Vianet Group plc	-	-	-	-	242	-	-	242
Cambridge Cognition Holdings plc (formerly Cambridge Cognition Limited)	-	-	-	-	240	-	-	240
Dryden Human Capital Group Limited	167	-	643	-	-	-	1,118	1,928
Deep-Secure Ltd	-	-	-	-	500	-	2,000	2,500
DisplayPlan Holdings Limited	-	-	-	-	700	-	-	700
EKF Diagnostics Holdings plc	-	-	299	-	-	-	-	299
Ellfin Home Care Limited	-	-	-	-	317	886	1,774	2,977
Harris Hill Holdings Limited	-	-	-	-	-	-	1,500	1,500
Harvey Jones Holdings Limited	-	-	-	-	389	-	2,234	2,623
Insider Technologies (Holdings) Limited	-	-	-	-	780	-	-	780
PowerOasis Limited	-	-	-	-	567	-	1,133	1,700
Pressure Technologies plc	-	12	-	-	300	-	-	312
RMS Group Holdings Limited	-	-	-	200	70	-	250	520
Selima Limited	-	-	-	-	300	-	-	300
Seven Technologies Holdings Limited	-	-	-	-	1,151	-	2,833	3,984
TeraView Limited	-	-	-	-	375	-	-	375
Waterfall Services Limited	-	-	-	-	192	-	-	192

## 8. Trade and Other Receivables

	2013 £000	2012 £000
<b>Amounts receivable within one year:</b>		
Trade receivables	72	72
Prepayments and accrued income	125	460
	<b>197</b>	<b>532</b>
<b>Allowance for credit losses on trade receivables:</b>		
Allowances as at 1 April	-	82
Release – credited to Statement of Comprehensive Income	-	(82)
Additions – charged to Statement of Comprehensive Income	-	-
<b>Allowances as at 31 March</b>	<b>-</b>	<b>-</b>

Trade receivables are assessed for reduction in fair value when older than 90 days or when there is reasonable doubt that payment will be received in due course. As of 31 March 2013 no trade receivables were past due but not impaired (2012: £nil).

As of 31 March 2013, trade receivables of £nil (2012: £nil) were impaired and provided for.

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £160,000 (2012: £194,000). The Company does not hold any collateral as security. The carrying amounts of the Company's trade and other receivables are denominated in sterling.

## 9. Cash and Cash Equivalents

	2013 £000	2012 £000
Cash in transit for post year end investment	24	1,000
Cash at bank	10,645	6,372
	<b>10,669</b>	<b>7,372</b>

## 10. Trade and Other Payables

	2013 £000	2012 £000
<b>Amounts payable within one year:</b>		
Accrued expenses	132	152
Incentive fee	39	1,557
Other creditors	140	-
	<b>311</b>	<b>1,709</b>

## 11. Called-up Share Capital

	2013		2012	
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10.0 pence each Authorised: 165,000,000 (2012: 165,000,000) Issued: 46,606,430 (2012: 40,394,205)	16,500	4,661	16,500	4,039

The movements in the year were as follows:

	Price	Date	Number of shares	Share Capital £000	
Total as at 1 April 2012			40,394,205	4,039	
Issue of shares	Fundraising	99.75 pence	5 April 2012	1,531,778	153
Issue of shares	DRIS	91.77 pence	17 August 2012	261,760	26
Issue of shares	Fundraising	97.75 pence	31 December 2012	4,235,020	424
Issue of shares	DRIS	87.57 pence	14 January 2013	183,667	19
<b>As at 31 March 2013 (including treasury shares)</b>			<b>46,606,430</b>	<b>4,661</b>	

During the year the Company purchased 855,173 (2012: 199,200) of its own ordinary shares and these are held on the balance sheet in the treasury share reserve. Full details of the share purchases are set out in the Directors' Report under the heading 'Buy-Back and Issue of Ordinary Shares'. The 3,215,658 (2012: 2,360,485) treasury shares have been included in calculating the number of ordinary shares in issue, and excluded in calculating the number of ordinary shares with voting rights in issue, at 31 March 2013 and 31 March 2012.

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

Between the year end and the date of these Financial Statements the Company allotted new ordinary shares of 10.0 pence each at the prices set out below pursuant to the joint Offer for subscription made by the Company and British Smaller Companies VCT2 plc. The allotment on 9 May 2013 was made in response to an application by an individual Shareholder that was received by the Company after the close of the Offer on 30 April 2013, the allotment therefore being outside of the Offer.

Date	Number of ordinary shares	Offer price
5 April 2013	2,929,326	97.75
5 April 2013	2,730,385	95.75
30 April 2013	559,278	97.75
30 April 2013	155,045	95.75
9 May 2013	26,109	95.75

The capital and assets of the Company shall on winding-up or a return of capital (otherwise than on a purchase by the Company of any of its shares) be divided amongst the Shareholders pro rata according to the nominal capital paid up on their holdings of shares.

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

The basic and diluted Net Asset Value per ordinary share is calculated on attributable assets of £42,089,000 (2012: £37,894,000) and 43,390,772 (2012: 38,033,720) ordinary shares with voting rights in issue at the year end, excluding treasury shares.

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

## 13. Total Return per Ordinary Share

The Total Return per ordinary share is calculated on cumulative dividends paid of 84.2 pence per ordinary share (2012: 79.2 pence per ordinary share) plus the Net Asset Value as calculated in note 12.

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

	2013 £000	2012 £000
Profit before taxation	1,123	1,064
Decrease (increase) in trade and other receivables	246	(59)
(Decrease) increase in trade and other payables	(1,517)	1,239
Profit on disposal of investments in the year	(699)	(2,178)
Profit on investments held at fair value	(233)	(166)
Capitalised interest	(18)	(11)
Net cash outflow from operating activities	(1,098)	(111)

Profit before taxation above includes the following cash movements:

	2013 £000	2012 £000
Dividends received	81	422
Interest received		
– interest from fixed income securities	59	198
– deposit interest	198	73
Total interest	257	271

The principal non-cash transaction is the issue of shares under the Company's dividend re-investment scheme. The Statement of Cash Flows shows dividends paid of £1,558,000 which differs from the total in note 5 by £401,000, which is the dividend satisfied through the issue of new ordinary shares under this scheme.

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

	31 March 2012	Cash flow	Other non cash changes	31 March 2013
	£000	£000	£000	£000
Cash and cash equivalents	7,372	3,297	–	10,669

## 16. Financial Commitments

At 31 March 2013 there were no investments that had been approved which have not been reflected in these accounts (2012: one investment of £900,000), and had not completed since the year end. In addition to the two new investments in note 18, since the year end four further investments totalling £5,533,000 have been approved by the Board (2012: one further investment of £600,000).

## 17. Related Party Transactions

YFM Equity Partners Limited (formerly YFM Group Limited), the parent company of YFM Private Equity Limited, the Fund Manager to the Company, held an investment in Primal Pictures Limited, an investee company of the Company. On 13 August 2012 YFM Equity Partners Limited disposed of its holding in Primal Pictures Limited for which it received £71,000 and is entitled to £3,937 of deferred proceeds in the 12 months following the sale.

Mr P S Cammerman is a non-executive director of Pressure Technologies plc. During the year he received £23,000 (2012: £18,000) from Pressure Technologies plc in respect of his services. He also holds a 0.25 per cent equity stake in Pressure Technologies plc and during the year he held a 0.004 per cent stake in Straight plc, which he disposed of in March 2013.

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

## 18. Events after the Balance Sheet Date

On 22 May 2013 the Company completed an investment of £0.2 million into AB Dynamics plc, a business that designs, manufactures and supplies vehicle testing technology. On 3 April 2013 the Company invested a further £0.02 million into GO Outdoors Limited.

The £1.3 million of non-qualifying loans to Seven Technologies Holdings Limited have been repaid as part of the funding package for the proposed acquisition of Datong plc.

Subsequent to the year end, the Company allotted ordinary shares under the joint Offer with British Smaller Companies VCT2 plc, as detailed in note 11 to the Financial Statements on page 60.

On 18 April 2013 Cambridge Cognition Limited, now Cambridge Cognition Holdings plc, successfully listed on AIM raising £5.0 million.

## 19. Financial Instruments

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

The investments are valued in accordance with the policy stated on page 27. It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value. Therefore, the directors consider all assets to be carried at a valuation which equates to fair value.

Investments are made in a combination of equity, fixed rate and variable rate financial instruments so as to comply with VCT legislation and provide potential future capital growth. Surplus funds are held in bank deposits or fixed rate Government securities until suitable qualifying investment opportunities arise.

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

## 19. Financial Instruments (continued)

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

### Assets as per balance sheet

	2013		2012	
	Loans and receivables £000	Assets at fair value through profit or loss £000	Loans and receivables £000	Assets at fair value through profit or loss £000
<b>Non-current assets</b>				
Financial assets at fair value through profit or loss	–	30,034	–	26,699
<b>Current assets</b>				
Cash and cash equivalents	10,669	–	7,372	–
Cash on fixed term deposit	1,500	–	5,000	–
Trade and other receivables	72	–	72	–
	<b>12,241</b>	<b>30,034</b>	12,444	26,699
Other assets – not financial instruments	125	–	460	–
	<b>12,366</b>	<b>30,034</b>	12,904	26,699

### Liabilities as per balance sheet

	2013 Other financial liabilities £000	2012 Other financial liabilities £000
Trade and other payables	311	1,709

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

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

## 19. Financial Instruments (continued)

### 19a Market Risk

#### Market Price Risk

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

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

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

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

Of the Company's equity investments, 17 per cent are quoted on AIM (2012: 24 per cent). A 5 per cent increase in stock prices as at 31 March 2013 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £146,000 (2012: £186,000). An equal change in the opposite direction would have decreased the net assets attributable to the Company's Shareholders and the total profit for the year by an equal amount.

Of the Company's equity investments, 83 per cent are in unquoted companies held at fair value (2012: 76 per cent). The valuation methodology for these investments includes the application of externally produced FTSE® multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Investments have been valued in line with the valuation guidelines described on page 27. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £2,702,000 (6.4 per cent of net assets). A change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by the same amount.

The largest single concentration of risk relates to the Company's investment in GO Outdoors Limited which constitutes 11.8 per cent (2012: 14.5 per cent) of the net assets attributable to the Company's Shareholders. The Board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis. The average investment, excluding those that have had their fair value reduced to nil, is 2.3 per cent (2012: 2.2 per cent) of the total value of net assets.

#### Interest Rate Risk

The Company's venture capital investments include £10,150,000 (2012: £8,240,000) of loan stock in unquoted companies. The majority of this loan stock at 31 March 2013 is at fixed rates to guard against fluctuations in interest rates. As a result the Company is exposed to cash flow interest rate risk on £900,000 (2012: none) of its loan stock portfolio.

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

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

## 19. Financial Instruments (continued)

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

	2013			2012		
		Weighted average interest rate	Weighted average time for which rate is fixed		Weighted average interest rate	Weighted average time for which rate is fixed
	£000	%	Months	£000	%	Months
Fixed rate loan stock	9,250	10.5	37	8,240	11.02	39
Fixed income securities	2,474	2.5	31	2,499	2.40	33
Cash on fixed term deposit	1,500	1.4	2	5,000	2.50	5
Combined	13,224	7.7	32	15,739	6.84	27

### Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

### 19b Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Fund Manager has in place a monitoring procedure in respect of credit risk which is reviewed on an ongoing basis. The carrying amounts of financial assets excluding equity investments total £24,867,000 (2012: £23,305,000) which best represents the maximum credit risk exposure at the balance sheet date.

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

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

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

All the assets of the Company which are traded on a recognised exchange are held by Nplus1 Singer Advisory LLP, the Company's stockbroker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited. The Fund Manager monitors the Company's risk by reviewing the broker's internal control reports on a regular basis.

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

The maturities of the loan stock portfolio are as follows:

	2013 £000			2012 £000		
	<1 year	1-2 years	2-5 years	<1 year	1-2 years	2-5 years
Unquoted loan investments	3,703	574	6,296	2,218	634	5,366

## 19. Financial Instruments (continued)

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

	2013 £000			2012 £000		
	1-2 months	3-6 months	> 6 months	1-2 months	3-6 months	> 6 months
Interest	13	13	14	47	-	-
Capital	-	790	667	-	667	-

All amounts where loan stock is overdue are subject to ongoing negotiations as to the rescheduling of capital repayments.

### 19c Liquidity Risk

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

The Company needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company places its surplus funds in a mixture of Government gilts and bank interest deposit accounts. Investments in Government stocks are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise.

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

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. Of the Company's assets 25.3 per cent (2012: 19.5 per cent) are in the form of liquid cash and cash equivalents. There are no undrawn committed borrowing facilities at either year end. The Company does not have a material liability as at the year end.

#### Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 27. Where investments are in quoted stocks, fair value is set at market price. Non-quoted investments are valued in line with International Private Equity and Venture Capital ("IPEVC") valuation guidelines. The primary methods used, and the key assumptions relating to them, are:

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

**Earnings multiple:** the appropriate sector FTSE® multiples are used as a market-based indication of the enterprise value of an investment company. A discount is applied to the multiple by the Fund Manager based on the perceived market interest in that company or sector and on any benefit that may be observed by holding a significant shareholding or superior rights.

## 20. Capital Management

The Company's objectives when managing capital are:

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

The Company has no external debt; consequently all capital is represented by the value of share capital, distributable and other reserves. Total Shareholder equity at 31 March 2013 was £42.1 million (2012: £37.9 million).

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

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

# Notice of the Annual General Meeting

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR ATTENTION.** If you are in any doubt about the action to be taken, you should immediately consult with your bank manager, stockbroker, solicitor, accountant or other appropriate independent adviser authorised pursuant to the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all of your shares in British Smaller Companies VCT plc, please send this document and accompanying documents as soon as possible to the purchaser or transferee or to the stockbroker, independent financial adviser or other person through whom the sale or transfer was effected for delivery to the purchaser or transferee.

No: 03134749

## BRITISH SMALLER COMPANIES VCT PLC

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 33 St James Square, London, SW1Y 4JS on 19 July 2013 at 12.00 noon for the following purposes:

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

### ORDINARY RESOLUTIONS

- (1) That the Annual Report and Accounts for the year ended 31 March 2013 be received.
- (2) That the final dividend of 3.5 pence per ordinary share for the year ended 31 March 2013 be approved.
- (3) That the Directors' Remuneration Report for the year ended 31 March 2013 be approved.
- (4) That Ms H Sinclair be re-elected as a director.
- (5) That Mr C W E R Buchan be re-elected as a director.
- (6) That Mr P S Cammerman be re-elected as a director.
- (7) That Grant Thornton UK LLP be re-appointed as auditor to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.
- (8) That the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006, to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £497,909 representing approximately 10 per cent of the share capital in issue as at 11 June 2013 (excluding treasury shares) provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the later of the date which is 15 months from the date hereof or the date of the next annual general meeting of the Company, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry. All previous authorities to allot given to the directors, other than the authority granted pursuant to resolution 3 (authority to allot shares in respect of the dividend re-investment scheme) at the general meeting of the Company held on 11 January 2011, be and are hereby revoked provided that such revocation shall not have retrospective effect.
- (9) That the Company be authorised, subject to and in accordance with the provisions of the Companies Act 2006, to send, convey or supply all types of notices, documents or information to the members of the Company by means of electronic equipment for the processing (including digital compression), storage and transmission of data, employing wires, radio optical technologies, or any other electro-magnetic means, including by making such notices, documents or information available on a website.
- (10) That pursuant to article 166 of the Company's articles of association, the directors be and are hereby authorised to extend their ability to offer holders of shares in the Company, pursuant to the Company's dividend re-investment scheme, the right to receive shares, credited as fully paid, instead of cash in respect of the whole (or some part to be determined by the directors) of all or any dividend declared on or before 11 January 2016, to any dividends declared during the period commencing 12 January 2016 and ending at the beginning of the annual general meeting in 2018.
- (11) That the directors be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company in connection with the dividend re-investment scheme up to an aggregate nominal amount of £700,000 representing approximately 14 per cent of the share capital in issue as at 11 June 2013 (excluding treasury shares) during the period commencing on the date of this resolution and expiring on the fifth anniversary of this resolution (unless previously revoked, varied or extended by the Company in general meeting) but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted after such expiry and that all previous authorities given to the directors to allot shares in connection with the dividend re-investment scheme be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

## SPECIAL RESOLUTIONS

- (12) That the directors be and are hereby empowered in accordance with sections 570 and 573 of the Companies Act 2006 during the period commencing on the passing of this resolution and expiring, unless renewed, varied or revoked by the Company, on the later of the conclusion of the Company's next annual general meeting or the expiry of 15 months following the passing of this resolution, to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash pursuant to the general authority conferred upon the directors in resolution 8 above, as if section 561 of the Companies Act 2006 did not apply to such allotment provided that this power is limited to the allotment of equity securities in the Company up to an aggregate nominal amount of £497,909, representing approximately 10 per cent of the issued share capital of the Company as at 11 June 2013 (excluding treasury shares), but so that this authority shall allow the Company to make offers or agreements before the expiry of such powers and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(2) of the Companies Act 2006 as if in this resolution the words "pursuant to the general authority conferred upon the directors in resolution 8 above" were omitted.
- (13) That the directors be and are hereby empowered in accordance with section 570 of the Companies Act 2006 during the period commencing on the passing of this resolution and expiring on the fifth anniversary of this resolution (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash pursuant to the general authority conferred upon the directors in resolution 11 above as if section 561 of the Companies Act 2006 did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with the dividend re-investment scheme up to an aggregate nominal amount of £700,000, representing approximately 14 per cent of the issued share capital of the Company as at 11 June 2013 (excluding treasury shares) but so that this authority shall allow the Company to make offers or agreements before the expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.

## BY ORDER OF THE BOARD

**KHM Secretarial Services Limited**

**Secretary**

11 June 2013

Registered office:

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

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

### Notes:

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and the notes of the Form of Proxy. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these Notes. Please read Note (h) below. Under section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
  - the answer has already been given on a website in the form of an answer to a question; or
  - it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered,
- (b) To be valid, a Form of Proxy must be completed and signed and with the power of attorney or other written authority, if any, under which it is signed or an office or notorially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority must be delivered, to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly

certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.

- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company and a copy of the current articles of association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (weekend and public holidays excluded) from the date of this Notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 6.00pm on 17 July 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members at 6.00pm on the day two days before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6.00pm on 17 July 2013 or, in the event that the Annual General Meeting is adjourned, on the Register of Members after 6.00pm on the day two days before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.
- (g) As at 11 June 2013, the Company's issued share capital comprised 49,790,915 ordinary shares of 10.0 pence each with a further 3,215,658 shares held in treasury. These treasury shares represented 6.5 per cent of the total issued share capital (excluding treasury shares) at the aforementioned date. Each ordinary share carries one voting right at a general meeting of the Company and so the total number of voting rights in the Company as at 11 June 2013 was 49,790,915. The website referred to above will include information on the number of ordinary shares and voting rights.
- (h) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting.
  - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
  - Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.
- (i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
- (j) In the case of joint members, any one of them may sign the Form of Proxy. The vote of the person whose names stands first in the register of members of the Company will be accepted to the exclusion of the votes of the other joint holders.
- (k) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given on the Form of Proxy, the proxy will vote or abstain from voting at his or her discretion. The proxy will also vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- (l) Members may not use any electronic address provided either in this Notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate for any purpose other than those expressly stated.
- (m) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

# BRITISH SMALLER COMPANIES VCT PLC FORM OF PROXY

To be used at the Annual General Meeting of the Company  
to be held at 33 St James Square, London, SW1Y 4JS on 19 July 2013 at 12.00 noon

I/We \_\_\_\_\_ being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Annual General Meeting or (see notes (2), (3) and (4)) \_\_\_\_\_ of \_\_\_\_\_

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 19 July 2013 at 12.00 noon and at any adjournment thereof.

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

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

My/our proxy is to vote on the resolutions as indicated below. Please indicate with an 'x' how you wish your vote to be cast. If no voting indication is given, your proxy will vote or abstain from voting on the resolutions at their discretion.

	FOR	AGAINST	WITHHELD
<b>ORDINARY RESOLUTIONS</b>			
1. To receive the Annual Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 3.5 pence per ordinary share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Ms H Sinclair as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr C W E R Buchan as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To re-elect Mr P S Cammerman as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-appoint Grant Thornton UK LLP as auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. To grant authority to allot shares (other than pursuant to the dividend re-investment scheme)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To authorise the Company to communicate with members by electronic means	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. To continue the dividend re-investment scheme for a further period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. To grant authority to allot shares pursuant to the dividend re-investment scheme for a further period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>SPECIAL RESOLUTIONS</b>			
12. To authorise the directors to waive pre-emption rights in relation to the allotment of shares (other than pursuant to the dividend re-investment scheme)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. To authorise the directors to waive pre-emption rights in relation to the allotment of shares pursuant to the dividend re-investment scheme for a further period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Signature** \_\_\_\_\_ **Dated** \_\_\_\_\_ **2013**

**Please refer to notes overleaf.**

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

# BRITISH SMALLER COMPANIES VCT PLC

## FORM OF PROXY

To be used at the Annual General Meeting of the Company  
to be held at 33 St James Square, London, SW1Y 4JS on 19 July 2013 at 12.00 noon

### NOTES

1. The Notice of the Annual General Meeting is set out on pages 66 to 68 of the Annual Report.
2. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and in the Notice of Annual General Meeting. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
3. If you wish to appoint a proxy of your own choice delete the words "the Chairman of the Annual General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
4. Any alterations to the Form of Proxy should be initialled by the person who has signed the Form of Proxy.
5. To be valid, a Form of Proxy must be completed and signed by the member(s) and delivered with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made.
6. In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
7. In the case of a corporation, this Form of Proxy must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
8. In the case of joint Shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members of the Company will be accepted to the exclusion of the votes of the other joint holders.
9. Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will also vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

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

# Advisers to the Company

## Fund Manager and Custodian

### **YFM Private Equity Limited**

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

## Registrars

### **Capita Registrars Limited**

The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

## Solicitors

### **hlw Keeble Hawson LLP**

Protection House  
16-17 East Parade  
Leeds  
LS1 2BR

## Stockbrokers

### **Nplus1 Singer Advisory LLP**

1 Bartholomew Lane  
London  
EC2N 2AX

## Fixed Interest Securities Adviser

### **Brewin Dolphin Securities Limited**

34 Lisbon Street  
Leeds  
LS1 4LX

## Independent Auditor

### **Grant Thornton UK LLP**

2 Broadfield Court  
Sheffield  
S8 0XF

## VCT Status Adviser

### **PricewaterhouseCoopers LLP**

1 Embankment Place  
London  
WC2N 6RH

## Bankers

### **The Royal Bank of Scotland plc**

27 Park Row  
Leeds  
LS1 5QB

### **Lloyds Banking Corporate Markets**

40 Spring Gardens  
Manchester  
M2 1EN

## Company Secretary

### **KHM Secretarial Services Limited**

Old Cathedral Vicarage  
St James Row  
Sheffield  
S1 1XA

---

# British Smaller Companies VCT plc



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

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

Transforming Small Businesses  
[yfmepl.com](http://yfmepl.com)

---

