YFM Equity Partners

British Smaller Companies VCT plc

Annual Report

for the year ended 31 March 2016

aic

Information to Shareholders Awards 2016

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ABOUT US

British Smaller Companies VCT plc was launched in 1996 and has a diverse portfolio of unquoted and AIM quoted investments. The current investment portfolio has an audited valuation of £58.8 million as at 31 March 2016, of which £56.5 million (96 per cent) is held in unquoted investments and £2.3 million (4 per cent) is held in quoted investments.

ABOUT US

Investment Adviser

British Smaller Companies VCT plc (the "Company") is advised by YFM Private Equity Limited (the "Investment Adviser") which is a wholly owned subsidiary of YFM Equity Partners LLP and is authorised and regulated by the Financial Conduct Authority.

Investment Policy

The investment strategy 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 application and development of innovation.

The Company invests in UK businesses across a broad range of sectors including Software, IT & Telecommunications, Business Services, Manufacturing & Industrial Services, Retail & Brands and Healthcare and these investments will primarily be in unquoted companies. Investments will be made with regard to the VCT regulations so as to maintain the VCT's venture capital trust status. Alongside an investment in equities the Company usually invests in preference shares and loan stock to enhance the security of the portfolio and to achieve a balance of income and capital growth.

Further details of the Company's investment policy can be found in the Strategic Report on page 10.

Dividend Policy

Your Board remains committed to achieving the objective of a consistent and, where possible, increasing dividend stream over time, whilst seeking to preserve the capital value of the Company, but this depends upon the level of investment income and realisations that the Company is able to make or achieve in any one period and cannot be guaranteed.

The tax reliefs that are available for an investment in a VCT are of particular benefit to qualifying shareholders as there is no income tax payable on the dividend received, or need to declare them in a tax return.

Share Buy-Backs

Share buy-backs enable shareholders to obtain some liquidity in an otherwise largely illiquid market when there is a need to dispose of shares. This policy is kept under active review to ensure that any decisions taken are in the interests of shareholders as a whole. The current rate of discount at which ordinary shares will be bought back is targeted to be no more than five per cent of the latest reported net asset value.

Dividend Re-Investment Scheme ("DRIS")

The Company operates a DRIS which gives shareholders the opportunity to re-invest any cash dividends. Currently dividends are re-invested at a five per cent discount to the latest reported net asset value, as adjusted for the relevant dividend in question if this has not already been recognised. 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. The Finance Act 2014 confirmed that shares acquired at any time under dividend re-investment schemes will not impact tax relief given on sales of or subscriptions for VCT shares, unless in the latter case it results in a breach of the £200,000 investment limit.

CONTENTS

FINANCIAL HIGHLIGHTS

Total Return increased to over £2 per ordinary share

Since 31 March 2015 your Company's total return has increased by 11.2 pence, from 197.5 pence per ordinary share to 208.7 pence per ordinary share, which includes cumulative dividends paid of 108.7 pence per ordinary share.

Investment Return

The investment portfolio's return was 18.6 per cent of its opening value.

Disposal Proceeds

Proceeds from the sale of portfolio investments of £12.7 million were generated, crystallising a gain over the 31 March 2015 carrying value of £3.8 million. This enabled the payment of special dividends of 4.5 pence per ordinary share during the year.

Dividends for the Year

Total dividends paid during the year ended 31 March 2016 were 10.0 pence per ordinary share, which equates to 10.1 per cent of the opening net asset value per share.

FINANCIAL CALENDAR

Results Announced	16 June 2016
Ex-dividend Date	30 June 2016
Record Date	1 July 2016
DRIS Election Date	21 July 2016
Annual General Meeting	27 July 2016
Dividend Paid	5 August 2016

FIVE YEAR SUMMARY

	Year ended 31 March 2016	Year ended 31 March 2015	Year ended 31 March 2014	Year ended 31 March 2013	Year ended 31 March 2012	Cumulative 5 years to 31 March 2016
Income £000	**3,365**	2,310	1,341	1,323	1,236	9,575
Profit before and after taxation £000	**10,409**	4,043	6,525	1,123	1,064	23,164
Profit per ordinary share	**11.40p**	5.98p	13.14p	2.78p	2.92p	36.22p
Dividends per ordinary share paid in the year	**10.0p**	8.0p	6.5p	5.0p	23.0p	52.5p
Cumulative dividends paid per ordinary share	**108.7p**	98.7p	90.7p	84.2p	79.2p	
Net assets attributed to ordinary shares £000	**95,723**	87,720	62,584	42,089	37,894	
Net asset value per ordinary share	**100.0p**	98.8p	102.0p	97.0p	99.6p	
Total return per ordinary share	**208.7p**	197.5p	192.7p	181.2p	178.8p	

STRATEGIC REPORT

"Dividends paid in the year totalled 10.0 pence per ordinary share;

The portfolio generated income of £3.4 million – 2.5 times the level received in the year to 31 March 2014, adding further resilience to future investment returns;

The portfolio delivered an increased value of £10.3 million in the year;

Total return increased to over £2 per share for the first time, with NAV of £1 per share."

CHAIRMAN'S STATEMENT

The last year has been characterised by political and economic uncertainty, with a General Election and the announcement of the referendum on membership of the European Union. More specifically, the Government enacted new VCT legislation in November 2015 which has created a hiatus in investment in the VCT industry.

Against this backdrop your Company has focussed on improving the returns from its portfolio and adjusting to the new VCT rules. Pleasingly the result for the year has seen total return per ordinary share increase by 11.2 pence per share (an 11.3 per cent return on the opening Net Asset Value). This has enabled your Company to pay total dividends of 10.0 pence per ordinary share. As at 31 March 2016 total return was 208.7 pence per ordinary share with cumulative dividends paid of 108.7 pence per ordinary share. Your company is one of the few in the VCT industry which has paid out dividends exceeding 100 pence per ordinary share.

Following the initial changes to the VCT rules in July 2015 the Board decided to complete investments only where HMRC had granted advance assurance. Consequently only one new investment was made which was into KeTech Enterprises Limited. The new legislation finally received Royal Assent on 18 November 2015 and further guidance in draft form has been published by HMRC subsequent to your Company's financial year end. The Board and your Company's Investment Adviser are adapting to the new rules and the investment pipeline contains a number of new opportunities which we are in the process of seeking advanced assurance as to their eligibility from HMRC. Although the time taken to implement these new rules disrupted the flow of investment in the year to March 2016 and the delay in issuing guidance has further disrupted the pattern of new investments, the Board fully expects to make further additions to the portfolio in the coming financial year.

Financial Results

The movement in net asset value per ordinary share and the dividends paid in the year to 31 March 2016 are summarised in the table below:

Net Asset Value

	Pence per ordinary share		£000	
NAV at 1 April 2015		98.8		87,720
Net underlying increase in portfolio	10.8		10,323	
Net income	0.1		86	
Buy-back of shares	0.2		(316)	
Issue of new shares	0.1		6,998	
	11.2		17,091	
Dividends paid	(10.0)		(9,088)	
		1.2		8,003
NAV at 31 March 2016		**100.0**		**95,723**
Cumulative dividends paid		108.7		
Total Return		**208.7**		

27 July 2016

The Annual General Meeting of the Company will be held at 12.00 noon on 27 July 2016 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 76.

In the year to 31 March 2016 your Company's total return after all costs increased by 11.2 pence per ordinary share to 208.7 pence per ordinary share. This return was delivered through improved performances from many of the portfolio companies and the highly successful disposal of the investment in President Engineering Group Limited for £7.6 million in July 2015. The increase in total return equates to an increase of 11.3 per cent on the opening NAV per ordinary share at 31 March 2015.

The charts on page 12 of these financial statements show in greater detail the movement in total return, net asset value and dividends paid over time.

These financial results have enabled your Company to continue to hold its ranking as a top-performing VCT, with Citywire reporting it as the fourth best performing VCT over the last ten years. (Source: Citywire data as at 23 May 2016 - based on NAV performance).

Shareholder Relations

Dividends

The Board remains committed to the objective of maintaining capital value and paying a consistent dividend. Dividends paid in the year comprise a final dividend of 3.5 pence per ordinary share in respect of the year ended 31 March 2015, an interim dividend of 2.0 pence per ordinary share and special dividends of 4.5 pence per ordinary share in respect of the financial year just ended, totalling 10.0 pence per ordinary share. This represents 10.1 per cent of the opening net asset value and 11.5 per cent of the opening share price per ordinary share, and brings the cumulative dividends paid to 108.7 pence per ordinary share.

The Board is pleased to propose a final dividend of 3.5 pence per ordinary share for the year ended 31 March 2016. This final dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and if approved will then be paid on 5 August 2016 to shareholders on the register at 1 July 2016. The ex-dividend date is 30 June 2016.

Dividend Reinvestment Scheme ("DRIS")

Your Company operates a DRIS which gives shareholders the opportunity to re-invest any cash dividends and is open to all shareholders, including those who invested under the recent share offers. For the financial year ended 31 March 2016 dividends totalling £2.1 million were re-invested in your Company by way of the DRIS.

Fundraising

In April 2015 your Company raised £1.4 million from the final tranche of the 2015/16 Offer alongside British Smaller Companies VCT2 plc and in February 2016 a further £3.6 million was raised after the successful completion of a €5.0 million top up offer.

Incentive fee

As a result of the increased level of dividend and maintenance of the net asset value above its target, an incentive fee of £1.0 million (2015: £0.6 million) is payable to YFM Private Equity Limited, in accordance with the terms of the Incentive Agreement (the details of which are set out on page 60), and this has been accounted for in these financial statements.

This payment is linked to achieving both a consistent and increasing dividend (with a 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.

Shareholder communications

As part of the Board's continuing dialogue with shareholders, the 21st shareholder workshop was held in conjunction with British Smaller Companies VCT2 plc at the British Library on 17 May 2016, with over 200 attendees. There were presentations from the managing directors of our two newest investments, Ness (Holdings) Limited and KeTech Enterprises Limited, David Hall and David Bell from the Investment Adviser, as well as Wyndham North of HM Treasury.

I am delighted to report that your Company was voted the winner of the Best Report and Accounts, VCTs by the Association of Investment Companies (AIC) at their recent Information for Shareholders Awards. This award recognises the importance your Board attaches to investor communications.

The Board has implemented an electronic communications policy, whereby documents such as the annual report are disseminated via the website www.bscfunds.com rather than by post and this has saved on printing costs as well as being more environmentally friendly. I am pleased to report that this policy has been well received and 82 per cent of shareholders have now opted to receive communications in this way.

The website www.bscfunds.com is refreshed on a regular basis, with the emphasis on providing a comprehensive level of information in a user friendly format.

Regulatory Changes

The changes to the regulations surrounding VCTs (and EIS) brought in during 2015 arose from an EU review of the use of state aided investment in the UK. The income tax reliefs received by VCT investors are classified as state aid under the EU's guidelines, Risk Capital Finance ("RCF"), and a revised set of these guidelines came into force on 1 January 2015.

The UK legislation that was enacted in November 2015 as part of the Finance (No. 2) Act 2015 includes changes to reflect the requirements of the RCF. VCTs have to comply with both the UK legislation and the RCF and are subject to review by HMRC, HM Treasury and the EU.

The principal changes that have been made are to the definitions of Qualifying Holdings and what VCTs are able to do with non-qualifying money.

In summary, Qualifying Holdings are now restricted to companies:

i that are less than ten years old, if classed as knowledge intensive; or

ii that are less than seven years old if they are not classed as knowledge intensive; or

iii that are older than seven or ten years old and have previously received state-aided finance within seven years of first trading; or

iv where the investment is "substantial in relation to the size of the company" and the monies are to be used to fund the company's growth into new product markets and/or new geographies.

There are also restrictions on the use of funds prior to them being invested in Qualifying Holdings; this is known in the legislation as the liquidity test. This is restricted to shares or securities on a regulated market, cash and certain liquid funds. Notably AIM is excluded, as it is not a regulated market, which means new non-qualifying investments on AIM will not be allowed. Your Company's Investment Policy has been amended to reflect this latter point.

Impact of the Regulatory Changes

Existing portfolio

The new rules apply to all investments from the date of Royal Assent, 18 November 2015. The Board and the Investment Adviser have reviewed the existing portfolio. Although in some cases any further investment into the existing portfolio will be restricted, the Board believes that there should be no material impact on the portfolio as a whole.

New investments

The investment policy and mandate is set out on page 10 of this report. The Board believes that the overall pool of potential investments available to the VCT market as a whole is likely to be smaller than in previous years and as earlier stage companies, they may be of higher risk. However, your Company has extensive experience of investing in companies to support their growth plans and will continue to do so under the new legislation.

Although the new rules preclude VCTs from providing replacement capital the Investment Adviser does manage some non-VCT funds that can make such investments and this should allow your Company to participate in investments where an element of replacement capital is required.

The Board has taken a cautious approach, only completing investments for which HMRC advanced assurance is given. It is clear that the practical application of the new rules will need a period of adjustment by the VCT industry and HMRC, as evidenced by the fact that HMRC's detailed guidance was only issued in draft form in May 2016, six months after the rules came into force. Nonetheless your Company has built a pipeline of investments for which advanced assurance is now in process.

Outlook

Given the delays in gaining advance assurances from HMRC the level of investment is likely to continue at a reduced level in the short term. Despite some uncertainty over how HMRC will implement the new VCT rules in practice the Board is confident that there are sufficient opportunities to allow your Company to continue investing in attractive opportunities. However, it is possible that the overall level of investment will be lower than experienced in the past and additionally there may be greater volatility in the income and capital returns from investing in new, earlier stage investments.

Your Company has a strong and well diversified portfolio which continues to perform strongly overall, and remains well positioned to deliver future growth.

Helen Sinclair
Chairman

16 June 2016

OBJECTIVES AND KEY POLICIES

The Company's objective is to provide investors with an attractive long-term tax free dividend yield while seeking to maintain the capital value of their investment, and maintain the Company's status as a venture capital trust.

Investment Policy

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

The legislation governing VCTs requires that at least 70 per cent by value of its holdings must be in Qualifying Holdings. The maximum value of any single investment is 15 per cent at the time of investment.

The Company invests in UK businesses across a broad range of sectors including, but not limited to, Software, IT & Telecommunications, Business Services, Manufacturing & Industrial Services, Retail & Brands and Healthcare.

The Company invests in a range of VCT qualifying securities which may include ordinary and preference shares and fixed income securities, such as corporate bonds and gilts. Unquoted investments are structured so as to spread risk and enhance revenue yields, usually as a combination of ordinary shares, preference shares and loan stock.

Borrowing

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

Co-investment

British Smaller Companies VCT plc and British Smaller Companies VCT2 plc (the "VCTs") have in aggregate first choice of all investment opportunities meeting the VCT qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million may be allocated one third to YFM Private Equity Limited's institutional co-investment funds and two thirds to the VCTs. Where there are opportunities for the VCTs to co-invest with each other, the basis for allocation is 60 per cent to the Company and 40 per cent to British Smaller Companies VCT2 plc. The Board of the Company has discretion as to whether or not to take up, or in the circumstances where British Smaller Companies VCT2 plc does not take up its allocation, increase its allocation in such co-investment opportunities.

Asset Mix

Pending investment in VCT-qualifying securities, surplus cash is primarily held in interest bearing instant access, notice and fixed term bank accounts, or in UK Gilts. Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes AIM investments from this category.

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom being non-executive directors, can be found on page 43.

Other Key Policies

Details of the Company's policies on the payment of dividends, the DRIS and the buy-back of shares are given on page 2. In addition to these the Company's anti-bribery and environmental and social responsibilities policies can be found on page 32.

PROCESSES AND OPERATIONS

The Investment Adviser 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 HMRC clearance is obtained for approval as a Qualifying Holding.

The Board approves all investment and divestment decisions save in that new investments up to £250,000 in companies whose securities are traded on a regulated stock exchange and where the decision is required urgently, in which case the Chairman of the Board of Directors, if appropriate, may act in consultation with the Investment Adviser, provided papers have first been circulated to the Chairman of the Investment Committee. With regard to the realisation of quoted holdings the Investment Adviser is authorised to implement the Company's exit strategy for the holding in question within parameters previously agreed by the directors.

The Board regularly monitors the performance of the portfolio and the investment requirements set by the relevant VCT legislation. Reports are received from the Investment Adviser regarding the trading and financial position of each investee company and senior members of the Investment Advisory Team regularly attend the Company's Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT regulations so that the Board can monitor that the Venture Capital Trust status of the Company is being maintained and take corrective action if appropriate.

The Board reviews the terms of YFM Private Equity Limited's appointment as Investment Adviser on a regular basis.

YFM Private Equity Limited has performed investment management or advisory, administrative and secretarial services for the Company since its inception on 28 February 1996. The principal terms of the agreement under which these services are performed are set out in note 3 to the financial statements.

Performance Incentive

The Investment Adviser 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. More detail on the agreement as amended from time to time is given in note 3 to the financial statements.

No payment can be made in respect of the year to 31 March 2016 under the Incentive Agreement unless the average quarterly adjusted net asset value of the Company is a minimum of 92.7 pence per ordinary share and, in addition, at least 4.9 pence per ordinary share in dividends has been paid to shareholders. The total dividends paid in the year are 10.0 pence per ordinary share and the net asset value per share at 31 March 2016 is 100.0 pence per ordinary share. As a result the Investment Adviser has met the targets for the year under review and a performance fee of £983,025 has accrued to the Investment Adviser (31 March 2015: £564,329). Payment is made five business days after the relevant Annual General Meeting at which the audited accounts are presented to shareholders.

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

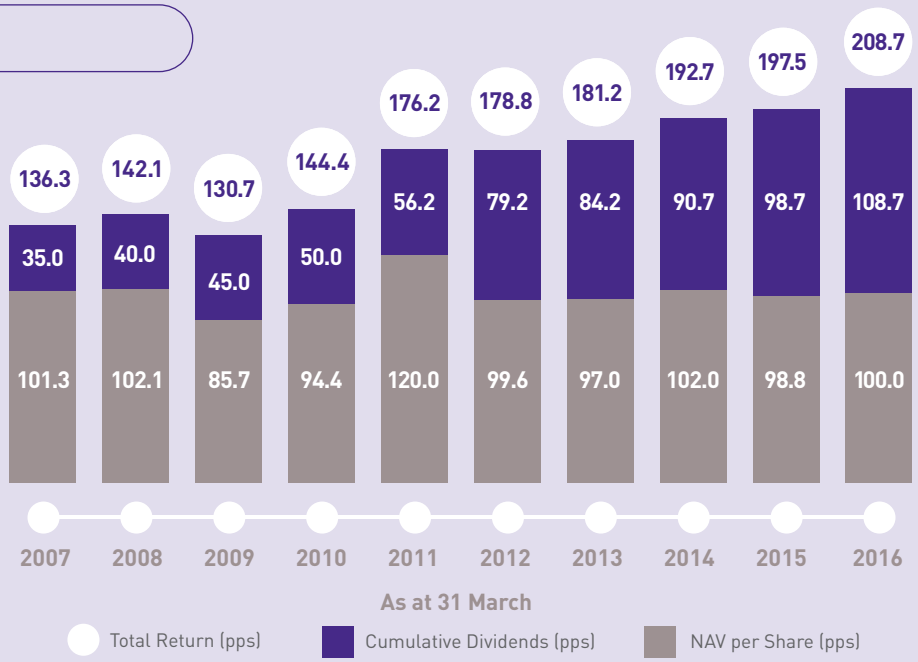
Administration of the UK Fixed Income Securities Portfolio

Reporting to the Investment Adviser, this portfolio is managed by Brewin Dolphin Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

KEY PERFORMANCE INDICATORS

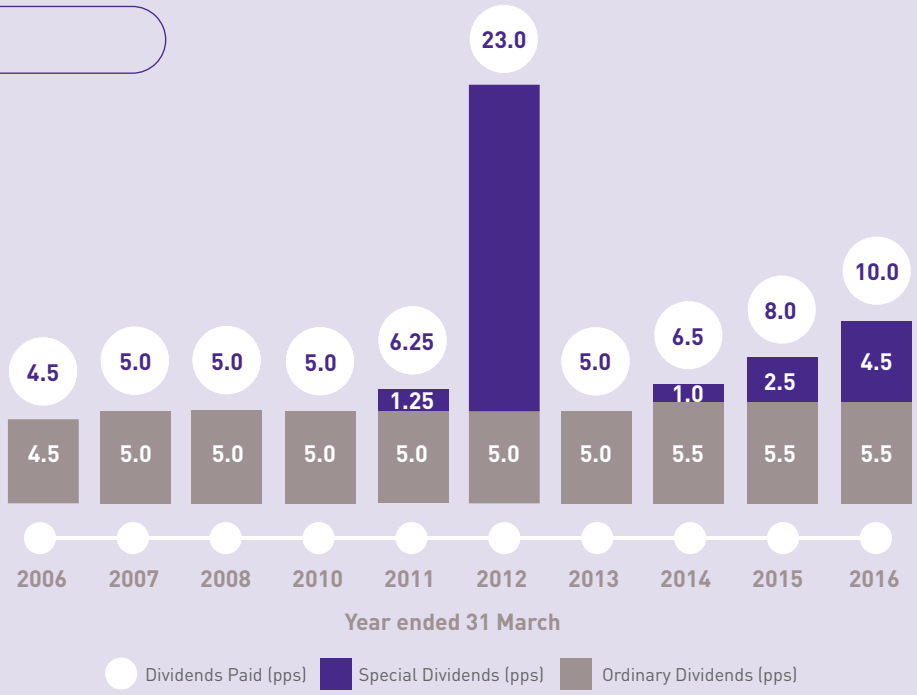
The commonly used benchmarks of performance for VCTs are total return, calculated as cumulative dividends paid plus net asset value, and dividends paid.

Total Return



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 ("the AIC"). This is the Company's stated benchmark index. A comparison and explanation of the calculation of this return is shown in the Directors' Remuneration Report on page 45.

Dividends Paid



The average dividend paid over the last 5 years (including the 18 pence special dividend paid in 2012) was 10.5 pence per ordinary share equivalent to a 10.5 per cent yield per annum.

Shareholder Returns

The table below shows the cumulative dividends, 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 dividend and total return figures in this table exclude the benefits of all tax reliefs whilst the last column includes the benefit of tax reliefs as noted.

Tax year	Net asset value at 31 March 2016	Cumulative dividends paid since fundraising	Total return including Fundraising[1]	Offer price net of initial tax relief	Offer price	Overall return including tax relief since fundraising with participation in the DRIS[2]
	Pence	Pence	Pence	Pence	Pence	Pence
1995/96 & 1996/97	100.0	108.7	208.7	80.0	100.0	308.2
1996/97 & 1997/98	100.0	105.7	205.7	80.0	100.0	307.3
1997/98 & 1998/99	100.0	102.0	202.0	84.0	105.0	307.2
2004/05 (C share[3])	112.5	83.4	195.9	60.0	100.0	307.0
2005/06	100.0	78.3	178.3	59.7	99.5	302.6
2006/07 & 2007/08	100.0	73.8	173.8	71.8	102.5	279.7
2007/08 & 2008/09	100.0	68.8	168.8	74.4	106.3	266.8
2009/10 & 2010/11	100.0	58.8	158.8	68.1	97.3	235.8
2010/11 & 2011/12	100.0	52.5	152.5	89.6	128.0	229.3
2011/2012	100.0	29.5	129.5	69.8	99.8	177.3
2012/13 & 2013/14	100.0	24.5	124.5	67.0	95.8	166.8
2013/14 & 2014/15	100.0	18.0	118.0	70.5	100.8	157.2
2014/15 & 2015/16	100.0	10.0	110.0	69.7	99.5	144.2

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. NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS shares purchased. Assuming all dividends since inception were invested under terms of current DRIS.
3. All figures have been adjusted for conversion of C shares into ordinary shares in May 2007.

Expenses

Ongoing Charges figure

The Board monitors expenses using the Ongoing Charges figure, as calculated in line with the AIC recommended methodology. This figure shows shareholders the annual operating expenses expressed as a percentage of the net asset value which, whilst based on historical information, provides an indication of the likely level of costs that will be incurred in managing the fund in the future.

Expenses	Year to 31 March 2016 (%)	Year to 31 March 2015 (%)
Ongoing Charges figure	**2.29**	2.29

Expenses Cap

The total costs incurred by the Company in the year (excluding any performance related fees, trail commission payable to financial intermediaries and VAT) is capped at 2.9 per cent of the total Net Asset Value as at the relevant year end. The treatment of costs in excess of the cap is described in note 3 on page 59. There was no breach of the expenses cap in the current or prior year.

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. The Board receives regular reports on compliance with the VCT legislative tests from its Investment Adviser. In addition the Board receives formal reports from its VCT Status Adviser twice a year. The Board can confirm that during the period all of the VCT legislative tests have been met.

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 in the Official List on a European regulated market throughout the period, there are a further five specific tests that VCTs must meet following the initial three year provisional period. These are summarised in the table below.

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

Further restrictions placed on VCTs are:

Dividends from cancelled share premium

The Finance Act 2014 introduced a restriction with respect to the use of monies in respect of VCTs. In particular, no dividends can be paid out of cancelled share premium arising from shares allotted on or after 6 April 2014 until at least three financial years have elapsed. In the case of the Company the earliest date that such cancelled share premium can be used to pay a dividend is 1 April 2018.

From the share premium cancellation of £26.80 million on 10 October 2014, £24.71 million is available for distribution and £2.09 million will become distributable on 1 April 2018.

Other

The Finance (No. 2) Act 2015 imposes further conditions in respect of investments, including those regarded as non-qualifying investments, including:

i) An aggregate limit of £12 million (or £20 million for Knowledge Intensive Companies) on the amount of State Aid Risk Finance investment a business can receive during its lifetime;

ii) No more than seven years can have elapsed since the first commercial sale achieved by the business (ten years in the case of a Knowledge Intensive Company), unless:

   a. the business has previously received an investment from a fund that has received state aid, or

   b. the investment comprises more than 50 per cent of the average of the previous five years' turnover and the funds are to be used in the business to fund growth into new product markets and/or new geographies.

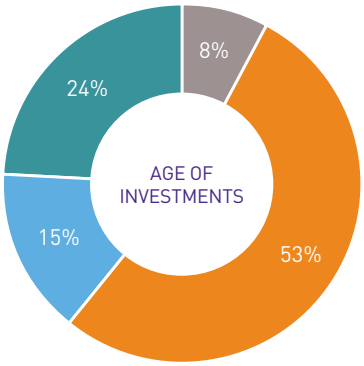
Income Test	The Company's income in the period must be derived wholly or mainly (70 per cent) from shares or securities.
Retained Income Test	The Company must not retain more than 15 per cent of its income from shares and securities.
Qualifying Holdings Test	At least 70 per cent by value of the Company's investments must be represented throughout the period by shares or securities comprised in Qualifying Holdings of investee companies.
Eligible Shares Tests	At least 30 per cent of the Company's Qualifying Holdings must be represented throughout the period by holdings of non-preferential ordinary shares.
	For monies raised from 6 April 2011 onwards the eligible shares test above increases to at least 70 per cent of Qualifying Holdings that must be represented by eligible shares.
	In addition, monies are not permitted to be used to finance buy-outs or otherwise to acquire existing businesses or shares.
	There is 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 from VCTs) in the 12 months ending on the date of each investment.
Maximum Single Investment Test	The value of any one investment, at any time in the period, must not represent 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.

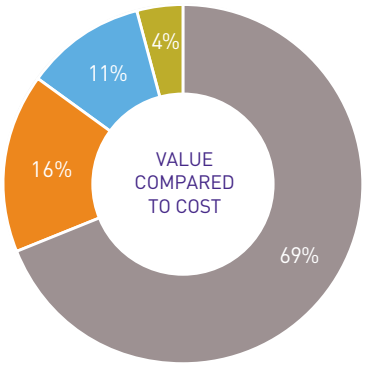
INVESTMENT PERFORMANCE

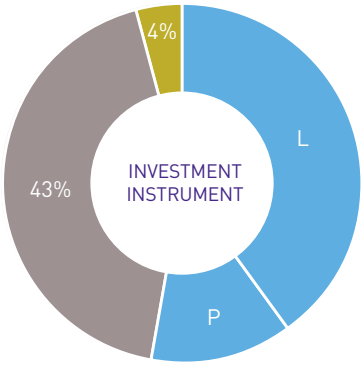
Portfolio structure

This illustrates the broad range of the investment portfolio, with almost 40 per cent of the portfolio valuation being held for more than 3 years, while 89 per cent is held at cost or above.

57 per cent of the portfolio's value is held in income generating financial instruments, enabling a greater proportion of the Company's future returns to derive from income.







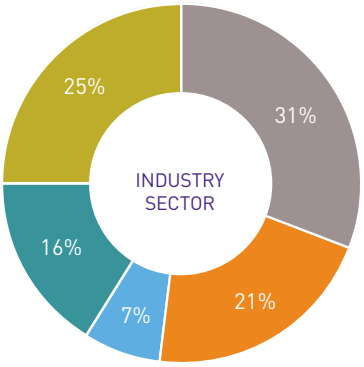
- Less than 1 year
- Between 1 and 3 years
- Between 3 and 5 years
- Greater than 5 years

- Value above cost
- At cost
- Value below cost
- Quoted Companies - portfolio above cost

- L Loan
- P Preference shares
- } 53%
- Ordinary Shares
- Quoted companies

Portfolio diversity

Also included below is a profile of the investment portfolio by industry sector.



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

The portfolio delivered a strong performance in the year, with a return of £10.3 million on the opening value and generated income of £3.4 million, which was an increase of 46 per cent over the previous financial year.

Investment Review

The portfolio as a whole delivered an increased value of £10.3 million in the year as shown in Table A below, with the improved profitability of many companies in the unquoted portfolio generating an unrealised value gain of £6.0 million and disposals delivering a gain of £3.8 million. This has allowed the Company to maintain its strong investor returns, with the NAV per ordinary share after all costs increased to 100.0 pence from 98.8 pence and the payment of dividends totalling 10.0 pence per ordinary share. The proposed final dividend is 3.5 pence per ordinary share.

At 31 March 2016 the investment portfolio was valued at £58.8 million (£55.5 million at 31 March 2015). Cash and gilt investments at 31 March 2016 were £36.1 million and represent 38 per cent of net assets (37 per cent at 31 March 2015).

Significant Investment Movements

Unquoted

The £6.0 million unrealised valuation gain from the unquoted portfolio is as a result of improved profitability by a number of businesses. The top five value gains in the period are:

- GO Outdoors Topco Limited — £2.9 million
- Intelligent Office — £1.1 million
- ACC Aviation — £1.0 million
- GTK (Holdco) Limited — £0.6 million
- DisplayPlan Holdings Limited — £0.6 million

These gains were partially offset by two companies which saw profits impacted by difficult trading conditions:

- The Heritage Window Company Holdco Limited — down £0.6 million
- Ness (Holdings) Limited — down £0.8 million

Quoted

Overall the quoted portfolio produced a return of £0.5 million. The main contributor was AB Dynamics plc with a gain of £0.5 million.

TABLE A
Investment portfolio

	£m	%
Unquoted value gain	6.0	58.3
Quoted value gain	0.5	4.8
Gain on disposal over opening value	3.8	36.9
Total Value Movement	**10.3**	**100.0**

Your Portfolio

Fair value of portfolio

Increase of 6%

(2015: £55.5 million)

Number of unquoted portfolio companies with value of £1.0 million or more

(2015: 20)

Income from the portfolio

Increase of 46%

(2015: £2.3 million)

Level of new investment

(2015: £19.1 million)

Investments

During the year ended 31 March 2016 the Company completed 8 investments totalling £5.4 million. This comprised new investments of £4.5 million, and follow-on investments of £0.9 million.

The analysis of the key investments is shown in Table B.

TABLE B

Date	Company	Investments made		
		New £m	Follow-on £m	Total £m
Apr-15	EL Support Services Limited	0.5	-	0.5
Apr-15	NB Technology Services Limited	0.5	-	0.5
Apr-15	OC Engineering Services Limited	0.5	-	0.5
Apr-15	SH Healthcare Services Limited	0.5	-	0.5
Apr-15	SP Manufacturing Services Limited	0.5	-	0.5
Nov-15	The Heritage Windows Company Holdco Limited	-	0.3	0.3
Nov-15	KeTech Enterprises Limited	2.0	-	2.0
Nov-15	Springboard Research Holdings Limited	-	0.6	0.6
Total additions in the year		**4.5**	**0.9**	**5.4**

Disposal of Investments

During the year to 31 March 2016 the Company received proceeds from disposals, repayments of loans and deferred consideration from the investment portfolio of £12.7 million, excluding the sale of fixed income securities. This resulted in a value gain on disposal of investments of £3.8 million compared to 31 March 2015 valuations.

This is analysed in Table C.

TABLE C
Disposal of Investments

	Net proceeds from sales of investments £m	Opening value 1 April 2015 £m	Gain on opening value £m
Sale of portfolio investments	12.7	8.9	3.8
Fixed income securities disposals	1.0	1.0	-
Total investment and fixed income securities disposals	**13.7**	**9.9**	**3.8**

The majority of the proceeds and gain on the sale of shares arose from the sale of the Company's investment in President Engineering Group Limited. Proceeds from the sale including loan repayments were £7.6 million, a profit on the 31 March 2015 carrying value of £3.1 million, and a profit on cost of £7.1 million.

A detailed analysis of all investments sold in the year can be found in note 7 to the financial statements on page 65.

Portfolio Composition

As at 31 March 2016 the portfolio of quoted and unquoted investments had a value of £58.8 million of which unquoted investments constituted 96 per cent and the quoted investments 4 per cent. An analysis of the movements in the year is shown on page 21.

The objective of increasing diversification within the portfolio continues to be successful, with the largest single investment representing less than 10 per cent of the net asset value. Five years ago the largest investment represented 32.8 per cent.

The charts on page 15 of these financial statements show the composition of the portfolio as at 31 March 2016 by industry sector, age of investment, investment instrument and the value compared to cost and shows diversity across a wide range of industry sectors.

The Company has continued to hold a small proportion of its cash in fixed income UK Government Gilts.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out on page 55, which takes account of current industry guidelines for the valuation of venture capital portfolios. Adjustments to fair value are made where an investment is significantly under-performing. As at 31 March 2016 the number of investments falling into each valuation category is shown in Table D below.

TABLE D
Valuation basis

	Valuation £m	% of portfolio by value
Earnings multiple	43.9	74.7
Cost, reviewed for change in fair value	12.1	20.6
Price of recent investment, reviewed for change in fair value	0.5	0.9
Quoted investments at bid price	2.3	3.8
Total	**58.8**	**100.0**

Summary and Outlook

Your Company is well positioned to take advantage of the opportunities to invest in younger companies seeking development capital with the current portfolio delivering good growth.

Whilst the introduction of the most recent legislation will reduce the overall pool of investments for the industry as a whole, there is an emerging pipeline of opportunities and YFM Private Equity Limited has a strong record in making development capital investments.

There are several good exit prospects in the portfolio and further profit improvements from investee companies would allow the Board to achieve its aim of improving the Company's total return.

David Hall
YFM Private Equity Limited

16 June 2016

Investment Portfolio Summary and Disposal History to 31 March 2016

Page No	Name of company	Date of initial investment	Location	Industry Sector	Current cost £000	Valuation at 31 March 2016 £000	Proceeds to date £000	Realised & unrealised return to date £000
Unquoted portfolio								
22	GO Outdoors Topco Limited	May-98	Sheffield	Retail & Brands	245	9,387	7,792	17,179
23	Intelligent Office (via IO Outsourcing Limited)	May-14	Alloa	Business Services	2,934	4,990	-	4,990
23	DisplayPlan Holdings Limited	Feb-10	Baldock	Business Services	130	3,317	1,521	4,838
23	Mangar Health Limited	Jan-14	Powys	Healthcare	2,460	3,285	-	3,285
24	ACC Aviation (via Newacc (2014) Limited)	Nov-14	Reigate	Business Services	2,068	3,019	-	3,019
24	GTK (Holdco) Limited	Oct-13	Basingstoke	Manufacturing & Industrial Services	1,237	2,663	513	3,176
24	Springboard Research Holdings Limited	Oct-14	Milton Keynes	Business Services	2,469	2,469	-	2,469
25	Gill Marine Holdings Limited	Sep-13	Nottingham	Retail & Brands	2,500	2,338	-	2,338
25	Seven Technologies Holdings Limited	Apr-12	Belfast	Software, IT & Telecoms	1,984	2,033	1,524	3,557
25	Business Collaborator Limited	Nov-14	Reading	Software, IT & Telecoms	2,010	2,029	-	2,029
26	KeTech Enterprises Limited	Nov-15	Nottingham	Software, IT & Telecoms	2,000	2,000	-	2,000
26	Leengate Holdings Limited	Dec-13	Derbyshire	Manufacturing & Industrial Services	1,401	1,944	-	1,944
27	Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	Oct-14	Gwynedd	Manufacturing & Industrial Services	1,675	1,876	125	2,001
27	The Heritage Window Company Holdco Limited	Sep-14	London	Manufacturing & Industrial Services	2,203	1,652	-	1,652
28	Harvey Jones Holdings Limited	May-07	London	Retail & Brands	1,203	1,603	1,479	3,082
28	Macro Art Holdings Limited	Jun-14	Cambridgeshire	Business Services	1,058	1,428	202	1,630
29	Wakefield Acoustics (via Malvar Engineering Limited)	Dec-14	Heckmondwike	Manufacturing & Industrial Services	1,140	1,140	15	1,155
	Fairlight Bridge Limited	Apr-12	Midlands	Business Services	1,000	1,000	-	1,000
	RMS Group Holdings Limited	Jul-07	Goole	Manufacturing & Industrial Services	180	932	897	1,829
	Selima Holding Company Ltd	Mar-12	Sheffield	Software, IT & Telecoms	600	923	-	923
	Bagel Nash Group Limited	Jul-11	Leeds	Retail & Brands / Manufacturing & Industrial Services	953	805	290	1,095
	Ness (Holdings) Limited	Mar-15	Edinburgh	Retail & Brands	1,528	764	-	764
Other Investments £0.75 million and below					5,956	4,936	-	4,936
Total unquoted investments					**38,934**	**56,533**	**14,358**	**70,891**
Quoted portfolio								
	Mattioli Woods plc	Nov-05	Leicester	Business Services	202	862	393	1,255
	AB Dynamics plc	May-13	Wiltshire	Manufacturing & Industrial Services	215	845	529	1,374
Other Investments £0.75 million and below					587	550	476	1,026
Total quoted investments					**1,004**	**2,257**	**1,398**	**3,655**
					39,938	**58,790**	**15,756**	**74,546**
Full disposals since 31 March 2002					24,534	-	42,375	42,375
Full disposals prior to 31 March 2002					5,748	-	1,899	1,899
Total investment portfolio					**70,220**	**58,790**	**60,030**	**118,820**

Summary of Investment Portfolio Movement since 31 March 2015

Name of Company	Investment Valuation at 1 April 2015 £000	Disposal Proceeds £000	Additions including capitalised interest and dividends £000	Valuation gains (losses) including profits (losses) on disposal £000	Investment Valuation at 31 March 2016 £000
GO Outdoors Topco Limited	6,488	-	-	2,899	9,387
Intelligent Office (via IO Outsourcing Limited)	3,899	-	-	1,091	4,990
DisplayPlan Holdings Limited [1]	3,286	(535)	-	566	3,317
Mangar Health Limited	3,279	-	-	6	3,285
ACC Aviation (via Newacc (2014) Limited)	2,068	-	-	951	3,019
GTK (Holdco) Limited	2,084	-	-	579	2,663
Springboard Research Holdings Limited	1,778	-	691	-	2,469
Gill Marine Holdings Limited	2,382	-	-	(44)	2,338
Seven Technologies Holdings Limited	1,606	-	-	427	2,033
Business Collaborator Limited	2,010	-	-	19	2,029
KeTech Enterprises Limited	-	-	2,000	-	2,000
Leengate Holdings Limited	1,776	-	-	168	1,944
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited) [1]	1,775	(100)	-	201	1,876
The Heritage Window Company Holdco Limited	1,903	-	300	(551)	1,652
Harvey Jones Holdings Limited [1]	2,010	(780)	-	373	1,603
Macro Art Holdings Limited [1]	1,441	(146)	-	133	1,428
Wakefield Acoustics (via Malvar Engineering Limited)[1]	1,080	(15)	76	(1)	1,140
Fairlight Bridge Limited	1,000	-	-	-	1,000
RMS Group Holdings Limited	1,034	-	-	(102)	932
Selima Holding Company Ltd	602	-	-	321	923
Bagel Nash Group Limited [1]	862	(120)	3	60	805
Ness (Holdings) Limited	1,500	-	28	(764)	764
Callstream Group Limited [2]	750	(742)	-	(8)	-
President Engineering Group Limited [1+2]	4,559	(7,634)	-	3,075	-
Insider Technologies (Holdings) Limited [1+2]	755	(1,159)	-	404	-
Other Investments £0.75 million and below [2]	2,733	(90)	2,525	(232)	4,936
Quoted Investments [2]	2,869	(1,369)	1	756	2,257
Total investment portfolio	**55,529**	**(12,690)**	**5,624**	**10,327**	**58,790**

1 – Loan repayments

2 - Equity disposals

INVESTEE COMPANY INFORMATION

Manufacturing and Industrial Services	Retail and Brands	Software, IT and Telecommunications	Healthcare	Business Services
Fair Value	**Fair Value**	**Fair Value**	**Fair Value**	**Fair Value**
£12.0m	£15.0m	£9.5m	£4.0m	£18.3m
2015: £14.7m	2015: £12.8m	2015: £5.9m	2015: £3.9m	2015: £18.2m
Number of companies	**Number of companies**	**Number of companies**	**Number of companies**	**Number of companies**
8.5*	5.5*	10	3	10
2015: 9.5	2015: 4.5	2015: 9	2015: 3	2015: 12

* one company is represented in two industry sectors.

Investment Portfolio

This section describes the business of the active companies in the portfolio with a value of £1.0m or more in order of valuation at 31 March 2016. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed below.

GO Outdoors Topco Limited

Sheffield
www.gooutdoors.co.uk

Cost:	£245,000
Valuation:	£9,387,000
Date of initial Investment:	May 1998
Equity held:	12.76%
Valuation basis:	Earnings multiple
Dividends:	£98,773 (2015: £42,943)

52 weeks ended 25 January	**2015 £million**	2014 £million
Sales	**181.41**	172.09
EBITDA pre exceptionals	**11.62**	10.17
Profit before tax	**3.09**	1.51
Retained profits	**5.70**	3.93
Net assets	**13.83**	12.09

GO Outdoors is a market leading chain of retail stores selling outdoor clothing and equipment. The company has continued its expansion, opening a further four stores in the 12 months to January 2016, taking the total number of outlets at that date to 54, with further openings planned.

Intelligent Office
[via IO Outsourcing Limited]

Alloa
www.intelligentofficeuk.com

Cost:	£2,934,000
Valuation:	£4,990,000
Date of initial Investment:	May 2014
Equity held:	26.65%
Valuation basis:	Earnings multiple
Interest:	£59,135 (2015: £52,995)
Dividends:	£127,238 (2015: £114,028)

Year ended 30 September	**2015**
	£million
Sales	**22.70**
EBITA	**1.52**
Loss before tax	**(0.15)**
Retained losses	**(0.62)**
Net assets	**0.90**

Prior year figures are not applicable for a full financial year.

Intelligent Office is a leading provider of process outsourcing solutions to UK legal practices. The Managed Services division works within firms' own premises to help them transform and manage key administrative functions and secretarial services.

DisplayPlan Holdings Limited

Baldock
www.displayplan.com

Cost:	£130,000
Valuation:	£3,317,000
Date of initial Investment:	February 2010
Equity held:	22.75%
Valuation basis:	Earnings multiple
Interest:	£20,632 (2015 £78,681)
Dividends:	£136,500 (2015 £30,282)

Year ended 31 December	**2015**	2014
	£million	£million
Sales	**16.40**	14.64
EBITA	**1.53**	1.01
Profit before tax	**1.10**	0.64
Retained profits	**5.02**	4.20
Net assets	**5.42**	4.60

DisplayPlan provides retail display solutions from design to finished product delivery to branded product manufacturers and UK retailers. Strong profits have been achieved since investment with an emphasis on continuing to broaden its customer base.

Mangar Health Limited

Powys
www.mangar.co.uk

Cost:	£2,460,000
Valuation:	£3,285,000
Date of initial Investment:	January 2014
Equity held:	22.27%
Valuation basis:	Earnings multiple
Interest:	£197,339 (2015 £196,800)
Dividends:	£13,011 (2015 £1,820)

Year ended 31 July	**2015**
	£million
Sales	**7.39**
EBITA	**1.41**
Profit before tax	**0.72**
Retained losses	**(0.25)**
Net assets	**0.74**

Prior year figures are not applicable for a full financial year.

Mangar is a world leader in inflatable lifting and handling and bathing equipment for the elderly, disabled and emergency services markets. It distributes its products to care providers, local authorities, ambulance services and care homes. Products help facilitate extended independence for elderly users.

ACC Aviation (via Newacc (2014) Limited)

Reigate
www.flyacc.com

Cost:	£2,068,000
Valuation:	£3,019,000
Date of initial Investment:	November 2014
Equity held:	22.00%
Valuation basis:	Earnings multiple
Interest:	£55,448 (2015 £19,846)
Dividends:	£114,259 (2015 £40,896)

Year ended 31 December

	2015	2014
	£million	£million
Sales	**40.56**	52.11
EBITA	**1.38**	1.12

Adjusted to reflect underlying performance as a full years trading results have not been filed.

With annual sales of over £50m, **ACC Aviation** has built an excellent reputation for providing services to clients across the world in all aspects of aircraft leasing, charter and flight management. The airline industry continues to change at a fast pace as passenger demand grows and air travel expands across the globe.

GTK (Holdco) Limited

Basingstoke
www.gtk.co.uk

Cost:	£1,237,000
Valuation:	£2,663,000
Date of initial Investment:	October 2013
Equity held:	26.90%
Valuation basis:	Earnings multiple
Interest:	£81,410 (2015 £104,275)

Year ended 31 July	**2015**
	£million
Sales	**10.61**
EBITA	**0.78**
Profit before tax	**0.29**
Retained profits	**0.33**
Net assets	**0.97**

Prior year figures are not applicable for a full financial year.

GTK is a manufacturer of cable assemblies, connectors, optoelectronics and manufacturing solutions for high technology customers. With a small sourcing team in Taiwan it provides design, procurement and manufacturing services of essential electronic components to sectors such as precision instrumentation, security and contract equipment manufacturing.

Springboard Research Holdings Limited

Milton Keynes
www.spring-board.info

Cost:	£2,469,000
Valuation:	£2,469,000
Date of initial Investment:	October 2014
Equity held:	15.32%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£116,621 (2015 £38,923)
Dividends:	£88,947 (2015 £38,641)

Year ended 31 December	**2015**	2014
	£million	£million
Sales	**4.10**	2.72
EBITA (LBITA)	**0.01**	(0.13)

Adjusted to reflect underlying performance as a full years trading results have not been filed.

Springboard Research is a leading provider of retail performance monitoring; providing footfall, dwell time and analysis of consumer behaviour. It is the official provider of footfall data and benchmarks to the British Retail Consortium. A continually shifting retail environment means that retailers and landlords are seeking new ways of improving their competitive advantage.

Gill Marine Holdings Limited

Nottingham
www.gillmarine.com

Cost:	£2,500,000
Valuation:	£2,338,000
Date of initial Investment:	September 2013
Equity held:	18.50%
Valuation basis:	Earnings multiple
Interest:	£225,616 (2015 £225,000)

Year ended 30 September	**2015**	2014
	£million	£million
Sales	**12.34**	12.26
EBITA	**1.52**	1.27
Profit before tax	**0.43**	0.14
Retained profits	**0.39**	0.05
Net assets	**1.95**	1.61

Gill Marine is a manufacturer of technical sailing equipment and clothing. Exports account for over 70 per cent of turnover. The strategy is to develop the brand further and increase its share in existing and new markets, including direct to the customer through its relaunched website.

Seven Technologies Holdings Limited

Belfast
www.seventechnologies.co.uk

Cost:	£1,984,000
Valuation:	£2,033,000
Date of initial Investment:	April 2012
Equity held:	10.02%
Valuation basis:	Earnings multiple
Dividends:	£39,796 (2015 £39,687)

Year ended 30 September	**2015**	2014
	£million	£million
Sales	**15.38**	13.36
EBITA (LBITA)	**1.41**	(1.86)
Loss before tax	**(0.96)**	(4.82)
Retained losses	**(7.33)**	(6.13)
Net assets	**13.78**	14.63

Seven Technologies is a security solutions business specialising in the development and manufacture of bespoke electronics and communications applications for operation in inhospitable environments. The strategy is to grow average contract sizes and increase the company's international presence. Trading in 2014 was adversely impacted by a freeze on international defence budgets although this situation improved in 2015.

Business Collaborator Limited

Reading
www.groupbc.com

Cost:	£2,010,000
Valuation:	£2,029,000
Date of initial Investment:	November 2014
Equity held:	29.08%
Valuation basis:	Earnings multiple
Interest:	£182,599 (2015 £63,361)

Year ended 30 November	**2015**
	£million
Sales	**2.86**
EBITA	**0.21**
Loss before tax	**(0.26)**
Retained losses	**(0.26)**
Net assets	**0.21**

Business Collaborator is an established provider of collaboration software hosted on the cloud to the construction sector and a leader in the nascent Building Information Modelling ("BIM") software market. Sales growth is driven by the products ability to deliver cost savings to its customer base of construction firms and asset owners, supported by government regulations.

KeTech Enterprises Limited

Nottingham
www.ketech.com

Cost:	£2,000,000
Valuation:	£2,000,000
Date of initial Investment:	November 2015
Equity held:	12.83%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£31,986
Dividends:	£19,585

Year ended 31 August	**2015**
	£million
Sales	**6.87**
EBITA	**1.41**

Audited results for the trading company KeTech Group Limited are shown, as KeTech Enterprises Limited has not yet published a full year's accounts.

KeTech is a specialist manufacturer and distributor to the rail communications, security and defence sectors. It has a diverse range of products including train passenger information systems, driver platform safety systems, airport scanners and chemical detection products for the military.

Leengate Holdings Limited

Derbyshire
www.leengatevalves.co.uk

Cost:	£1,401,000
Valuation:	£1,944,000
Date of initial Investment:	December 2013
Equity held:	10.50%
Valuation basis:	Earnings multiple
Interest:	£118,006 (2015 £117,684)
Dividends:	£33,692 (2015 £33,600)

Year ended 31 December	**2015**	2014
	£million	£million
Sales	**7.83**	7.50
EBITA	**1.53**	1.19
Profit before tax	**0.63**	0.27
Retained profits	**0.48**	0.11
Net assets	**1.06**	0.69

Leengate Valves is a wholesaler, stockist and distributor, supplying one of the largest ranges of industrial valves in the UK to leading re-sellers in the gas, water and industrial sectors. In addition it supplies engineering actuation and automation packages, offering a next day service and high quality technical advice.

Cambrian Park & Leisure Homes Limited
(via Cambrian Lodges Holdings Limited)

Gwynedd
www.cambrianleisurehomes.co.uk

Cost:	£1,675,000
Valuation:	£1,876,000
Date of initial Investment:	October 2014
Equity held:	24.49%
Valuation basis:	Earnings multiple
Interest:	£120,226 (2015 £54,829)
Dividends:	£30,082 (2015 £13,233)

Nine months ended 31 July	**2015**
	£million
Sales	**9.0**
EBITA	**1.0**

The results are not for a 12 month period as the investment was made during their reporting year.

Based in Porthmadog, North Wales, **Cambrian** designs and builds timber holiday lodges for the UK holiday park market. In the past two years turnover has increased by over 30% through new contracts wins with a wide range of holiday park operators.

The Heritage Window Company Holdco Limited

London
www.theheritagewindowcompany.co.uk

Cost:	£2,203,000
Valuation:	£1,652,000
Date of initial Investment:	September 2014
Equity held:	42.00%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£50,482 (2015 £24,460)
Dividends:	£111,539 (2015 £56,684)

Year ended 31 July	**2015**
	£million
Sales	**4.41**
LBITA	**(0.34)**

Adjusted for deal-related costs as the investment was made during their reported year.

Heritage Windows manufactures and sells slim line aluminium windows under the Benenden range. The windows are all made to order at its manufacturing facility in South London and sold from showrooms in Beaconsfield, Dorking, Bellingham and Sevenoaks. The strategy is to progressively rollout the successful product range into other geographical regions.

Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost:	£1,203,000
Valuation:	£1,603,000
Date of initial Investment:	May 2007
Equity held:	6.88%
Valuation basis:	Earnings multiple
Interest:	£205,928 (2015 £168,024)

Year ended 31 December	**2015**	2014
	£million	£million
Sales	**20.02**	17.15
EBITA	**1.53**	0.20
Profit/(loss) before tax	**0.84**	(0.53)
Retained profits/(losses)	**0.12**	(0.49)
Net assets	**0.65**	0.04

Harvey Jones is a manufacturer and retailer of kitchen furniture with showrooms in London and affluent provincial towns across the UK. The business has continued to open new showrooms, increasing its footprint from 10 at the time of the management buy-out to 31 currently and significantly increasing its market share.

Macro Art Holdings Limited

Cambridgeshire
www.macroart.co.uk

Cost:	£1,058,000
Valuation:	£1,428,000
Date of initial Investment:	June 2014
Equity held:	19.02%
Valuation basis:	Earnings multiple
Interest:	£51,230 (2015 £46,710)
Dividends:	£35,497 (2015 £28,514)

Year ended 31 May	**2015**
	£million
Sales	**7.87**
EBITA	**0.49**
Profit before tax	**0.13**
Retained profits	**0.05**
Net assets	**0.70**

Macro Art is a specialist wide-format digital printer, a niche service where there are only limited suppliers with specialist equipment and knowledge. High profile retail clients include Selfridges and Harrods. Significant recent investment in new dye sublimation technology has positioned the business well to expand its higher margin activities supporting exhibition displays and retail sector promotions.

Wakefield Acoustics
(via Malvar Engineering Limited)

Heckmondwike
www.wakefieldacoustics.co.uk

Cost:	£1,140,000
Valuation:	£1,140,000
Date of initial Investment:	December 2014
Equity held:	22.10%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£38,987 (2015 £11,398)
Dividends:	£58,480 (2015 £17,097)

Seven months ended 31 July	**2015**
	£million
Sales	**3.36**
EBITA	**0.03**

The results are not for a 12 month period as the investment was made during their reporting year.

Wakefield Acoustics, a specialist industrial acoustic engineering business, designing and installing a range of bespoke industrial and environmental noise control solutions. Customers include several blue chip engineering companies supplying globally into sectors such as power, oil and gas, water waste and general manufacturing. The strategy is to develop and broaden the product range, improve efficiencies by consolidating manufacturing facilities and deliver significant sales growth.

RISK FACTORS

The Board carries out a regular review of the risk environment in which the Company operates. The principal risks and uncertainties identified by the Board and techniques used to mitigate these risks are set out in this section.

The Board seeks to mitigate its principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the 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 September 2014. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on pages 41 and 42 and further information on exposure to risks including those associated with financial instruments is given in note 17 of the financial statements.

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 corporation tax on capital 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 the 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 14.

Economic

Risk - Events such as recession and interest rate fluctuations could affect investee companies' performance and valuations.

Mitigation - As well as the response to 'Investment and Strategic' risk below the Company has a clear investment policy (summarised on page 10) and a diversified portfolio operating in a range of sectors. The Investment Adviser actively monitors investee performance which provides quality information for monthly reviews 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 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 Investment Adviser 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 an external non-executive director will be appointed to the board of the investee on behalf of the Company.

Regulatory

Risk – The Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority, the Prospectus Rules made by the Financial Conduct Authority and International Financial Reporting Standards as adopted by the European Union and is subject to the EU's Alternative Investment Fund Manager's Directive. 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 Investment Adviser and the Company Secretary have procedures in place to ensure ongoing Listing Rules requirements are met and actively consult with brokers, solicitors and external compliance advisers as appropriate. The key controls around regulatory compliance are explained on pages 41 and 42.

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 Investment Adviser 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 Investment Adviser, have been agreed between the Investment Adviser and the Company. Advice is sought from external advisors where required. Both the Company and the Investment Adviser maintain appropriate insurances.

Operational

Risk – Failure of the Investment Adviser's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Mitigation – The Investment Adviser has a documented business continuity plan, which provides for back-up services in the event of system breakdowns.

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 pages 41 and 42.

Market/Liquidity

Risk – Lack of liquidity in both the venture capital and public markets. Investment in unquoted and AIM quoted 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 on the main 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 Investment Adviser and on a quarterly basis by the Board. Sufficient liquid resources are maintained to pay expenses as they fall due in the event that investments prove difficult to realise.

OTHER MATTERS

Environment

The Board recognises the requirement under Section 414C of the Companies Act 2006 to detail information about environmental matters (including the impact of the Company's business on the environment), employee, human rights, social and community issues, including information about any policies it has in relation to these matters and effectiveness of these policies.

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment, and has introduced an electronic communications policy during the year. This policy has led to a significant increase in the number of such communications with a commensurate reduction in the distribution of hard copy documents. The management and administration of the Company is undertaken by the Investment Adviser. 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 of the Investment Adviser designed to minimize its and 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.

Anti-Bribery and Corruption Policy

The Company has 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 Investment Adviser 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 Investment Adviser and its other service providers.

The Company had no employees during the year. The Board is composed of three non- executive directors, one female and two male. For a review of the policies used when appointing directors to the Board of the Company please refer to the Directors' Remuneration Report.

The strategic report on pages 6 to 32 is approved

By Order of the Board

Helen Sinclair
Chairman

16 June 2016

DIRECTORS

Name	Background and Experience

Helen Sinclair Chairman

Helen Sinclair (appointed 1 March 2008) 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 8 years at 3i plc focusing on MBOs and growth capital investments. She later co-founded Matrix Private Equity (now Mobeus Equity Partners) in early 2000 raising Mobeus Income & Growth 2 VCT plc (formerly Matrix e-Ventures VCT plc). She subsequently became managing director of Matrix Private Equity before moving to take on a portfolio of non-executive director roles in 2005. She is currently a non-executive director of The Income & Growth VCT plc, Mobeus Income & Growth 4 VCT plc, Downing One VCT, Gresham House Strategic plc and FTGS Holdco Limited.

Philip Cammerman

Philip Cammerman (appointed 28 February 1996) has an engineering degree from Imperial College and an MBA from Stanford University. He has over twenty 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 thirty years in the venture capital industry and was chairman of YFM Private Equity 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 and a number of smaller private businesses.

Edward Buchan

Edward Buchan (appointed 22 September 2010) 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 Edmond De Rothschild Securities and is a non-executive director of Wallem Group Limited, an international ship management and shipping services company based in Hong Kong.

Secretary

The City Partnership (UK) Limited
Thistle House
21 Thistle Street
Edinburgh
EH2 1DF

Registered No: SC269164

Registered Office of the Company

5th Floor
Valiant Building
14 South Parade
Leeds
LS1 5QS

Registered No: 03134749

DIRECTORS' REPORT

For the year ended 31 March 2016

The directors present their report and audited financial statements of British Smaller Companies VCT plc (the "Company") for the year ended 31 March 2016.

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 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.

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

The principal activity of the Company is making long term equity and loan investments, mainly in unquoted businesses.

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

Business Performance and Future Prospects

A detailed and fair review of the Company's business, its development, its performance during and at the end of the financial year, and its future prospects is set out in the Strategic Report on pages 6 to 32. The principal risks and uncertainties the Company faces are detailed on pages 30 to 31.

Results and Dividends

The Statement of Comprehensive Income for the year is set out on page 50. The profit before and after taxation for the year amounted to £10,409,000 (2015: £4,043,000).

During the year the Company paid a total of £9,088,000 (2015: £5,475,000) in dividends totalling 10.0 pence per ordinary share. A detailed review can be found in note 5 of the financial statements on page 61.

The directors recommend the payment of a final dividend of 3.5 pence per ordinary share (2015: 3.5 pence). A resolution to this effect will be proposed at the Annual General Meeting to be held on 27 July 2016.

The net asset value per ordinary share at 31 March 2016 was 100.0 pence (2015: 98.8 pence).The transfer to and from reserves is given in the Statement of Changes in Equity on page 52.

Going Concern

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

Statement on Long-term Viability

The AIC's Code of Corporate Governance requires the Board to assess the Company's viability over an appropriate period and the directors consider that for the purpose of this exercise it is not practical or meaningful to look forward over a period of more than three years. Taking into account the Company's current position and principal risks, the directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over that period.

In making their assessment the directors have taken into account the principal risks and their mitigation identified in the strategic report on pages 30 to 31, the nature of the Company's business, its substantial reserves of cash, the potential of its venture capital portfolio to generate future income and capital proceeds, and the ability of the directors to minimise the level of cash outflows should this be necessary.

Corporate Governance

The statement on corporate governance set out on pages 37 to 42 is included in the Directors' Report by reference.

Directors' and Officers' Liability Insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors indemnifying them against certain liabilities which may be incurred by any of them in relation to the Company.

Provision of Information to the External Auditor

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 they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Share Capital

As shown in note 11 of the financial statements, the Company has only one class of share, being ordinary shares of 10 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 22 July 2014) 364,332 ordinary shares of 10 pence each in the market (as disclosed in the table below) for aggregate consideration of £316,000. These shares are held in treasury.

Under the existing authority, which expires on the earlier of 22 July 2017, or at the conclusion of the Annual General Meeting held in 2017, the Company has the power to purchase shares up to 14.99 per cent of the Company's issued ordinary share capital as at 12 June 2014, being 9,828,153 ordinary shares.

During the year to 31 March 2016 a total of 7,291,938 ordinary shares were issued, of which 2,233,933 were issued under the Company's DRIS. Further details are given in note 11 on page 70.

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 27 July 2016 in connection with the following:

- the offers for subscription up to an aggregate nominal amount of £4,000,000;
- an offer of shares by way of a rights issue; and
- 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 offers for subscription.

This authority will be replaced at the next Annual General Meeting by a new authority to issue shares up to an aggregate nominal amount of £4,000,000.

In addition, the directors have a separate unconditional authority to allot ordinary shares in the Company in connection with the Company's DRIS until the commencement of the Annual General Meeting in 2018.

Buy-Back of 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 August 2015	281,101	0.30%	86.83
30 September 2015	83,231	0.09%	86.83

Cancellation of Share Premium Account

During the year there were no cancellations of share premium (2015: £26.80 million).

Capital Disclosures

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

- the Company's capital structure is summarised in note 11 to the financial statements. Each ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there are no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employee share scheme;
- the rules concerning the appointment and replacement of directors, amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- with the exception of the Investment Adviser's Incentive Agreement, there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- there are no agreements between the Company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

Environment

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any emissions producing sources including those within its underlying investment portfolio under part 7 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended.

Directors and their Interests

The directors of the Company at 31 March 2016, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 43 to 45.

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 2016 and the date of this report.

Independent Auditor

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

Financial Instruments

Details of the financial instruments held by the group and the risks associated with them are set out on pages 71 to 75 and this information is accordingly, incorporated into this report by reference.

Employment Policies

The employment policies of the Company are set out on page 44.

Events after the Balance Sheet Date

There are no events after the balance sheet date to report.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 76 to 79 of these financial statements.

The ordinary business of the meeting includes a resolution (Resolution 8) to be proposed to ensure the directors retain the authority to allot shares in the Company (other than pursuant to the DRIS) until the date of the 2017 Annual General Meeting, up to an aggregate nominal value of £4,000,000.

Also included is a Special resolution.

Resolution 9 is proposed to empower the directors to allot shares under the authority granted by Resolution 8 without regard to any rights of pre-emption on the part of the existing shareholders.

This report was approved by the Board on 16 June 2016 and signed on its behalf by:

Helen Sinclair
Chairman

British Smaller Companies VCT plc
Registered number 03134749

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 principles and recommendations of the Association of Investment Companies' Code of Corporate Governance issued in February 2015 ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") available on the AIC website www.theaic.co.uk.

The AIC Code as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code 2015 issued by the Financial Reporting Council ("FRC"), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

The UK Corporate Governance Code can be found on the website of the FRC at www.frc.org.uk.

The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company is committed to maintaining the highest standards of corporate governance and during the year to 31 March 2016 complied with the recommendations of the AIC Code and relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to the appointment of a chief executive and a recognised senior independent non- executive director, those relating to the presumption concerning the Chairman's independence and the need for an internal audit function. For reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of British Smaller Companies VCT plc, which is an externally advised venture capital trust. The Company has therefore not reported further in respect of these provisions.

Role of the Board

An investment advisory agreement between the Company and YFM Private Equity Limited sets out the matters over which the Investment Adviser has authority. This includes monitoring 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, investment and divestment decisions, 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 risk control and custody arrangements.

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

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

Board Composition

The Board consists of three non-executive directors including the Chairman, all of whom are regarded by the Board as independent and also as independent of the Company's Investment Adviser. 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 Ms H Sinclair fulfils the criteria for independence as a non-executive director. Although Mr PS Cammerman has been on the Board for more than 9 years the remaining directors, having considered the nature of his role in the Company, are satisfied that he 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 33.

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.

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 regards 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. All appointments are terminable by the relevant director 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. During the year there were five Board meetings, two Audit Committee meetings, one Remuneration and Nomination Committee meeting and one General meeting. The directors met via telephone and electronic conferences on twenty one other occasions.

In addition there were four DRIS allotment meetings which the directors were not required to attend, but which were attended by the Company Secretary.

Training and Appraisal

On appointment, the Investment Adviser and Company Secretary provide all directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and its 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 2016. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning and performing 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. 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

Meetings attended

	Ms H Sinclair	Mr C W E R Buchan	Mr P S Cammerman	Total
Board meetings	5	5	5	5
Audit Committee	2	2	2	2
Remuneration and Nominations Committee	1	1	1	1
General meetings	1	1	1	1
Telephone and electronic conferences	21	20	20	21
Total	30	29	29	30

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 and Nominations Committee

During the year the Company had a combined Remuneration and Nominations Committee, which consisted of three directors who were considered by the Board to be independent of the Investment Adviser, being Ms H Sinclair, Mr P S Cammerman and Mr C W E R Buchan, Chairman of the Remuneration and Nominations Committee. The Remuneration and Nominations 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 43 to 45.

In considering appointments to the Board, the Remuneration and 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.

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 and that the Chairman of the Committee meets the requirements of The UK Corporate Governance Code as to recent and relevant financial experience.

The Audit Committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the Board in relation to the Company's published financial statements (including in relation to the valuation of the Company's unquoted investments) and other formal announcements relating to the Company's financial performance;
- monitoring and making recommendations to the Board in relation to the Company's internal control (including internal financial control) and risk management systems;
- annually considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re- appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the Investment Adviser has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

It reviews the terms of the investment advisory agreement and examines the effectiveness of the Company's internal control and risk management systems, receives information from the Investment Adviser's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditor.

The directors' statement on the Company's system of internal control is set out on page 41.

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 also on the Company's website at www.bscfunds.com.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However the Committee considers annually whether there is a need for such a function and if so would recommend this to the Board.

During the year ended 31 March 2016 the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks;
- reviewing YFM Private Equity Limited's statement of internal controls operated in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing reports on the effectiveness of YFM Private Equity Limited's compliance procedures;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial statements, half yearly results statement and interim management statements prior to Board approval, including the proposed fair value of investments as determined by the directors;
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements; and
- recommending to the Board and shareholders the re-appointment of BDO LLP as the Company's external auditor.

The key areas of risk that have been identified and considered by the Audit Committee in relation to the business activities and financial statements of the Company are as follows:

- valuation of unquoted investments; and
- compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status;

These issues were discussed with the Investment Adviser and the auditor at the pre-year-end audit planning meeting and at the conclusion of the audit of the financial statements.

Valuation of unquoted investments:

The Audit Committee reviewed the estimates and judgements made in the investment valuations and was satisfied that they were appropriate. The Investment Adviser confirmed to the Audit Committee that the investment valuations had been carried out consistently with prior periods and in accordance with the published industry guidelines, taking account of the latest available information about investee companies and current market data, and a report from the auditor on the valuations was considered.

Venture capital trust status:

The Investment Adviser confirmed to the Audit Committee that the conditions for maintaining the Company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by the Company's VCT Status Adviser.

The Investment Adviser confirmed to the Audit Committee that it was not aware of any material unadjusted misstatements. Having reviewed the reports received from the Investment Adviser and the auditor, the Audit Committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities and revenue recognition have been properly appraised and are sufficiently robust. The Committee considers that BDO LLP has carried out its duties as auditor in a diligent and professional manner.

As part of the review of audit effectiveness and independence, BDO LLP has confirmed that it is independent of the Company and has complied with applicable auditing standards. BDO LLP has held office for three years; in accordance with professional guidelines the engagement partner will be rotated after at most five years, and the current partner has served for three years. The committee notes that the last tender process was performed in the year ended 31 March 2014.

Relationship with the Auditor

The Committee is responsible for overseeing the relationship with the external auditor, assessing the effectiveness of the external audit process and making recommendations on the appointment and removal of the external auditor. It makes recommendations to the Board on the level of audit fees and the terms of engagement for the auditor. The external auditor is invited to attend committee meetings, where appropriate, and also meets with the Committee and its Chairman without the representatives of the Investment Adviser being present.

The Committee undertakes a review of the external auditor's effectiveness in respect of the audit process. The Committee considers whether the auditor has:

- demonstrated strong technical knowledge and clear understanding of the business;
- indicated professional scepticism in key judgements and raised any significant issues in advance of the audit process commencing;
- allocated an audit team that is appropriately resourced;
- demonstrated a proactive approach to the audit planning process and engaged with the Committee Chairman and other key individuals within the business;
- Provided a clear explanation of the scope and strategy of the audit;
- Demonstrated the ability to communicate clearly and promptly with the members of the Committee and the Investment Adviser and produce comprehensive reports on its findings;
- Demonstrated that it has appropriate procedures and safeguards in place to maintain its independence and objectivity; and
- Charged justifiable fees in respect of the scope of services provided.

The Board regularly reviews and monitors the external auditor's independence and objectivity. As part of this process it reviews the nature and extent of services supplied by the auditor to ensure that independence is maintained. During the year no additional services were contracted from the external auditor.

The auditor prepares an audit strategy document on an annual basis. This provides information on the audit team and timetable, audit scope and objectives, evaluation of materiality, initial assessment of key audit and accounting risks, confirmation of independence and proposed fees. This is reviewed and approved by the Committee with an opportunity to consider the audit approach and to raise any queries with the auditor.

The outcome of the review together with any actions that have arisen are formally minuted and a summary is submitted to the Board for consideration.

The Committee assesses the effectiveness of the external audit process annually and makes a recommendation to the Board on the re-appointment of the auditor. This is considered by the Board prior to agreeing the recommendation to shareholders for the re-appointment of the auditor at each Annual General Meeting of the Company. As part of its review, the Committee considers the performance of the auditor and whether it has met the agreed audit plan, the quality of its reporting in its management letter and the cost effectiveness of the services provided as well as the manner in which it has handled key audit issues and responded to the Committee's questions.

The Committee concluded that the reappointment of BDO LLP as Auditor was in the best interests of the Company and of shareholders and its recommendation was endorsed by the Board.

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 Investment Adviser 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 quoted holdings, the Investment Adviser 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 on the Company's website at www.bscfunds.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 Investment Adviser. The quorum for Committee meetings is one director, unless otherwise determined by the Board. In addition the Company Secretary has an authority to allot shares under the DRIS.

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 the shareholders. There are no written terms of reference.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance, and reports formally to shareholders twice a year by way of the annual report and the interim report. This is supplemented by the 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 Investment Adviser are available in person to meet with and answer shareholders' questions. In addition, representatives of the Investment Adviser periodically hold shareholder workshops which review the Company's performance and industry developments, and which give shareholders a further opportunity to meet members of the Board and chief executives or chairmen of some of the investee companies. 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 83.

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

Internal Control and Risk Management

Under an agreement dated 28 February 1996, as varied by agreements dated 1 July 2009, 16 November 2012, 17 October 2014 and 24 August 2015, certain 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 the Investment Adviser to the Company;
- all decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Investment Adviser, save for those in respect of quoted investments which are taken by the Investment Adviser (as regards new investment, in conjunction with the Chairman of the Investment Committee) in accordance with the terms as set out on page 41;
- regular reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure;
- regular reviews of compliance with the VCT regulations to retain status; 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 Investment Adviser 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 and those identified in the Principles 13 and 15 of the AIC Code were in place throughout the year ended 31 March 2016 and up to the date of this report. The Board has carried out a robust review of the principal risks facing the Company. A detailed review of the risks and the techniques used to mitigate these risks can be found in the Strategic Report on pages 30 and 31.

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 FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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 Investment Adviser 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);
- the Audit Committee review of financial reporting and compliance (as set out on pages 39 to 40);
- the Board reviews financial information including the annual report, interim report and interim management statements prior to their external communication; and
- the Board reviews the financial information in any prospectus or offer for submission issued by the Company in connection with the issue of new share capital.

Following the FCA's registration of the Company as a Small Registered Alternative Investment Fund Manager the Company holds its own investments. All investments made for the accounts of and monies received for the Company will be deposited in the name of the Company or will be held by a custodian or the Company's solicitors. All certificates and other documents evidencing title (whether or not in registered form) will be received by the Company and will be held in the Company's name or forwarded directly to the custodian or the Company's solicitors. No third party custodian has been appointed. The Company will take legal ownership of its assets.

The Board has reviewed the effectiveness of the Company's systems of internal control and risk management for the year and up 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, and the Board has a reasonable expectation that the Company will continue in operational existence for the foreseeable future.

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. Details of all Related Party Transactions are shown in note 15 on page 71.

Corporate Governance in Relation to Investee Companies

The Company delegates responsibility for monitoring its investments to its Investment Adviser 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.

Co-Investment

Typically the Company invests alongside other venture capital funds and other private equity funds advised or managed by the Investment Adviser, such syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Strategic Report. Co-Investments are detailed in note 7 to the financial statements on page 68.

Management

The Board has delegated the monitoring of the investment portfolio to the Investment Adviser.

This report was approved by the Board on 16 June 2016 and signed on its behalf by

Helen Sinclair
Chairman

British Smaller Companies VCT plc
Registered number 03134749

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditor, BDO LLP, to audit certain information included in this report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the Independent Auditor's Report on pages 47 to 49.

Directors' Remuneration Policy

The Directors' Remuneration policy was approved by shareholders at the Annual General Meeting held on 22 July 2014, and 95 per cent of shareholders voted in favour of the policy. A resolution to approve the Directors' Remuneration Policy will be put to shareholders every three years.

The Board currently comprises three directors, all of whom are non-executive. The Company currently has an independent Remuneration and Nominations Committee, which is comprised by the full Board and of which Mr C W E R Buchan is the independent Chairman.

The Board has not retained external advisors in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and nature. Shareholders' views in respect of the directors' remuneration are communicated at the Company's AGM and are taken into consideration in formulating the Directors' Remuneration Policy.

At the last Annual General Meeting over 99 per cent of shareholders who exercised their voting rights voted for the resolution approving the Directors' Remuneration Report, showing significant shareholder approval.

The Board's policy is that the remuneration of non-executive directors should reflect the experience of the Board as a whole, to be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the directors needed to oversee properly the Company and to reflect the duties and responsibilities of the directors and the value and amount of time committed to the Company's affairs.

It is not considered appropriate that directors' remuneration should be performance-related, and as such the directors are not eligible for bonuses, share options, pension benefits, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the Company.

It is the Board's policy that directors do not have service contracts, but new directors are provided with a letter of appointment. The terms of directors' appointments provide that directors should retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter, it has been agreed that all directors will offer themselves for re-election on an annual basis. All directors have a 3 month notice period, and any director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services. There were no payments for loss of office made during the period.

The policy will continue to be applied in the forthcoming year.

Brief biographical notes on the directors are given on page 33.

Statement by the Chairman of the Remuneration and Nominations committee

The directors' fees payable by the Company have been fixed at June 2014 by the Board at £40,000 per annum for the Chairman and £25,000 per annum for the other Directors. In accordance with the Directors' Remuneration Policy the directors' fees were reviewed in June 2015 by the Board who agreed that they should be held constant and reviewed again in a year's time.

Directors' Remuneration for the Year Ended 31 March 2016 (Audited)

The directors who served in the year received their emoluments in the form of fees, which represent the entire remuneration payable to directors. These are shown in Table A.

There are no executive directors (2015: none).

Directors and their Interests (Audited)

The directors of the Company at 31 March 2016 and their beneficial interests in the share capital of the Company (including those of immediate family members) are shown in Table B.

None of the directors held any options to acquire additional shares at the year end.

Relative Importance of Spend on Pay

Directors' remuneration, dividend distribution and share buy-backs are shown in Table C.

Consideration of Employment Conditions of Non-director Employees

The Company does not have any employees. Accordingly, the disclosures required under paragraph 38 and 39 of Schedule 8 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 are not required.

TABLE A

Total fees paid (audited)

	2016 £	2015 £
H Sinclair	**40,000**	40,000
P S Cammerman	**25,000**	25,000
C W E R Buchan	**25,000**	25,000
	90,000	90,000

TABLE B

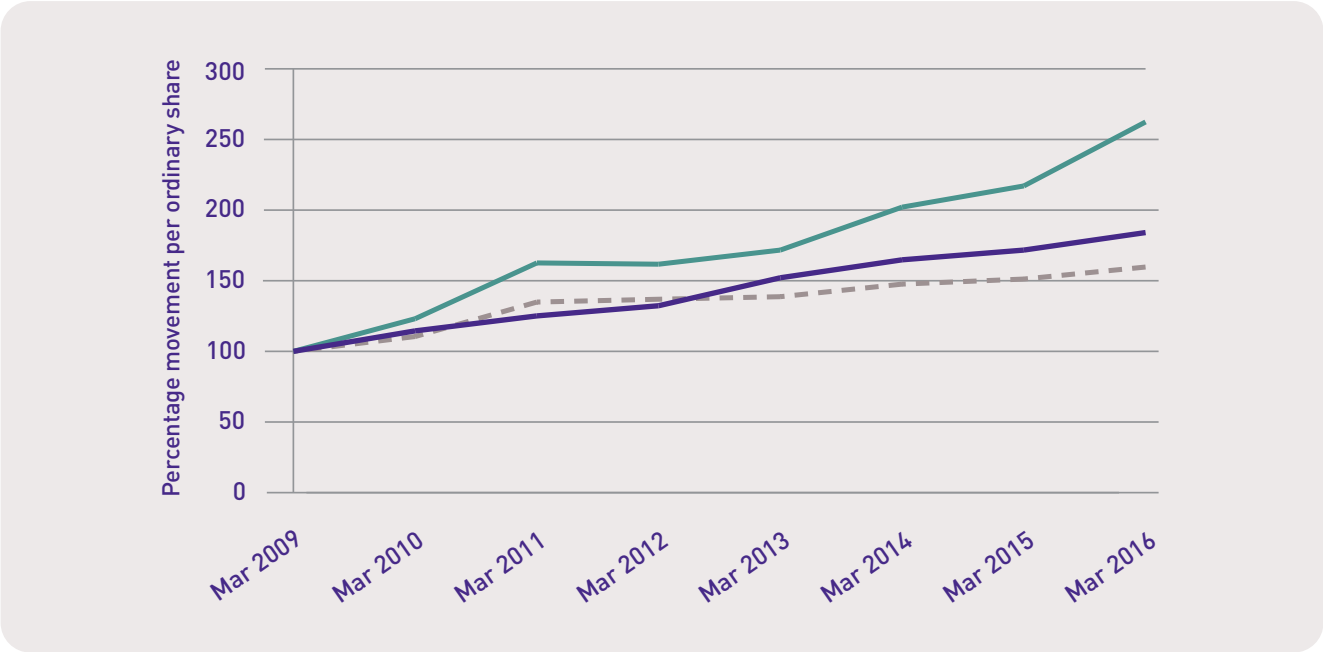
Directors and their interests (audited)

	Number of ordinary shares at		% voting rights at	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
H Sinclair	**23,062**	23,062	**0.02%**	0.03%
P S Cammerman	**78,072**	78,072	**0.08%**	0.09%
C W E R Buchan	**21,028**	12,837	**0.02%**	0.01%

TABLE C

Relative importance of pay

	2016 £	2015 £
Dividends	**9,088,000**	5,475,000
Share buy-backs	**316,000**	680,000
Total directors fees	**90,000**	90,000



VCT Generalist Share Price Total Return* (Source: the AIC) — BSC Share Price Total Return* — BSC Net Asset Value Total Return**

* assumes dividends reinvested
** assumes dividends not reinvested

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the monitoring of the Company's investment portfolio is delegated to the Investment Adviser through the investment advisory agreement, as referred to under Processes and Operations on page 11.

Net asset value total return (calculated by reference to the net asset value and cumulative dividends paid, as set out in note 13 of these financial statements and excluding tax reliefs received by shareholders) is the primary recognised measure of performance in the VCT industry. This measure is discussed on page 12.

In accordance with the requirements of the Companies Act 2006 the graph above shows a comparison over the last seven years of the movements in both the Company's share price total return and the share price total return for approximately 60 Generalist VCTs as published by the AIC. In line with the AIC index all the relative performance measures have been rebased to 100 as at March 2009. The directors consider this to be the most appropriate published index on which to report on comparative performance. The Company is currently outperforming the published index by forty three per cent.

Changes in the Company's net asset value total return are included on the graph as the Board believes this reflects the return to shareholders not participating in the DRIS.

This report was approved by the Board and signed on its behalf on 16 June 2016.

Helen Sinclair
Chairman

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements and have elected to prepare the Company's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for 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 they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare a Strategic Report, Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

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 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.

Website Publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website at www.bscfunds.com in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' Responsibilities Pursuant to DTR4

The directors confirm to the best of their knowledge:

- The financial statements have been prepared in accordance with IFRSs as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- The annual report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

Having taken advice from the Audit Committee, the Board considers the annual report and accounts, taken as a whole, are fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The names and functions of all the directors are stated on page 33.

For and on behalf of the Board

This statement was approved by the Board and signed on its behalf on 16 June 2016.

Helen Sinclair
Chairman

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BRITISH SMALLER COMPANIES VCT PLC

Our opinion on the financial statements

In our opinion the British Smaller Companies VCT plc financial statements for the year ended 31 March 2016, which have been prepared by the directors in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted in the European Union:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its return for the year then ended;
- have been properly prepared in accordance with IFRS as adopted in the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.

What our opinion covers

Our audit opinion covers the:

- Statement of Comprehensive Income;
- Balance Sheet;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- related notes.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Report, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Our approach

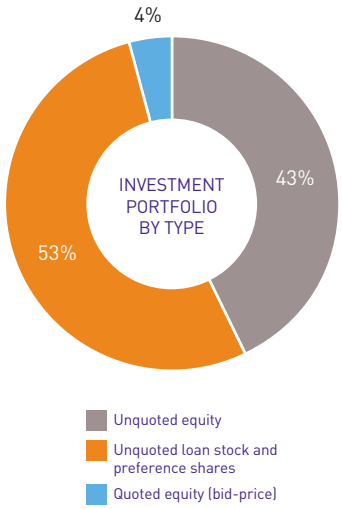
Our audit approach was developed by obtaining an understanding of the Company's activities, the key functions undertaken on behalf of the Board by the Investment Adviser and Administrator and the overall control environment. Based on this understanding we assessed those aspects of the Company's transactions and balances which were most likely to give rise to a material misstatement. Below are those risks which we considered to have the greatest impact on our audit strategy and our audit response.

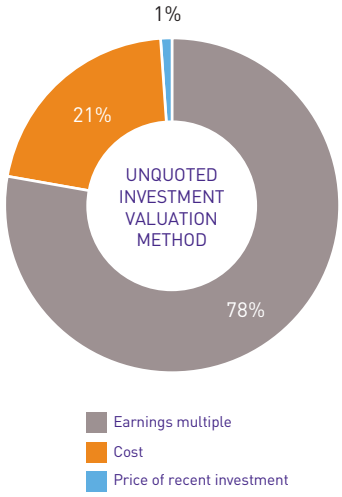
Investments

The outcome of our risk assessment was that the valuation of investments was considered to be the area with the greatest effect on the overall audit strategy including the allocation of resources in the audit.

The valuation of investments is a key accounting estimate where there is an inherent risk of management override arising from the investment valuations being prepared by the Investment Adviser, who is remunerated based on the net asset value of the Company.

We performed initial analytical procedures to determine the extent of our work considering, inter alia, the value of individual investments, the nature of the investment and the extent of the fair value movement. A breakdown of the investment portfolio by nature of instrument type and valuation method is shown above.





We tested a sample of 96 per cent of the unquoted investment portfolio having regard to the subjectivity of the inputs to the valuations.

78 per cent of the portfolio is valued with reference to subjective techniques including multiples of earnings and revenue. For detailed testing we:

- Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines
- Re-performed the calculation of the investment valuations
- Verified and benchmarked key inputs and estimates to independent information and our own research
- Challenged the assumptions inherent in the valuation of unquoted

investments, and we assessed the impact of the estimation uncertainty concerning these assumptions and the disclosure of these uncertainties in the financial statements

- Considered the economic environment in which the investment operates to identify factors that could impact the investment valuation.

The remaining 22 per cent of the unquoted portfolio is based on cost or price of recent investment. For such investments, we verified the cost or price of recent investment to supporting documentation and reviewed the Investment Adviser's determination of whether there were any reasons why the valuation did not remain appropriate.

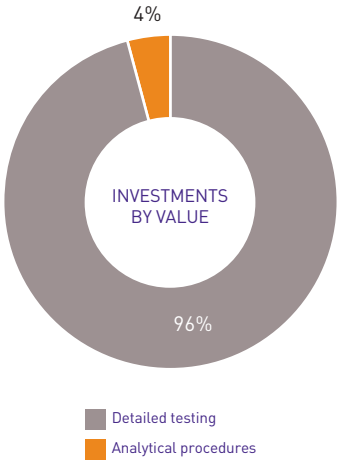
For all investments tested, we developed our own point estimate where alternative assumptions could reasonably be applied and considered the overall impact of such sensitisations on the portfolio of investments in determining whether the valuations as a whole are reasonable and unbiased.

For a risk-weighted sample of loans held at fair value, we:

- Considered the assumption that fair value is not significantly different to cost by challenging the assumption that there is no significant movement in the market interest rate since acquisition and considering the "unit of account" concept
- Reviewed the treatment of accrued redemption premium/other fixed returns in line with the Statement of Recommended Practice.

In respect of quoted equity investments, we confirmed that bid price had been used and that there were no contra indicators, such as liquidity considerations, to suggest bid price was not the most appropriate indication of fair value. 4 per cent of the portfolio is valued at bid price.

The chart below depicts the coverage of our audit work across the entire portfolio:



Revenue

We also considered revenue recognition to be a significant risk. Revenue consists of dividends receivable from the portfolio companies and interest earned on loans to portfolio companies and cash balances. Revenue recognition is a significant audit risk as it is one of the key drivers of dividend returns to investors. In particular, in unquoted companies, dividends receivable can be difficult to predict.

We assessed the design and the implementation of the controls relating to revenue recognition and we developed expectations for interest income receivable based on loan instruments and investigated any variations in amounts recognised to ensure they were valid.

We also reviewed the recognition and classification of accrued fixed income receipts to ascertain whether it meets the definition of realised income, considering management information relevant to the ability of the portfolio company to service the loan and the reasons for any arrears of loan interest.

In respect of dividends receivable, we compared actual income to expectations set based on independent published data on dividends declared by the portfolio companies. We tested the categorisation of dividends received from the portfolio companies between revenue and capital.

The Audit Committee's consideration of these key issues is set out on pages 39 to 40.

Materiality in context

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality	Assessing whether the financial statements as a whole present a true and fair view	The value of gross investments	1,180,000
Specific materiality – classes of transactions and balances which impact on net realised returns	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	Level of gross expenditure	170,000

testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements. The application of these key considerations gives rise to two levels of materiality, the quantum and purpose of which are tabulated on page 48.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10,000, as well as any differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 41 to 42 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the Company

We have nothing material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

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

- adequate accounting records have not been kept by the Company, 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 34, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

Jason Homewood
(senior statutory auditor)
For and on behalf of BDO LLP
Statutory auditor
London, UK

16 June 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

		2016			2015		
	Notes	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gains on investments held at fair value	7	**-**	**6,488**	**6,488**	-	2,468	2,468
Gain on disposal of investments	7	**-**	**3,835**	**3,835**	-	1,567	1,567
Income	2	**3,365**	**-**	**3,365**	2,310	-	2,310
Total income		**3,365**	**10,323**	**13,688**	2,310	4,035	6,345
Administrative expenses:							
Investment Adviser's fee		**(444)**	**(1,332)**	**(1,776)**	(318)	(954)	(1,272)
Incentive fee		**-**	**(983)**	**(983)**	-	(564)	(564)
Other expenses		**(520)**	**-**	**(520)**	(466)	-	(466)
	3	**(964)**	**(2,315)**	**(3,279)**	(784)	(1,518)	(2,302)
Profit before taxation		**2,401**	**8,008**	**10,409**	1,526	2,517	4,043
Taxation	4	**(278)**	**278**	**-**	(103)	103	-
Profit for the year		**2,123**	**8,286**	**10,409**	1,423	2,620	4,043
Total comprehensive income for the year		**2,123**	**8,286**	**10,409**	1,423	2,620	4,043
Basic and diluted earnings per ordinary share (p)	6	**2.33p**	**9.07p**	**11.40p**	2.10p	3.88p	5.98p

The accompanying notes on pages 55 to 75 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') 2014 published by The AIC.

BALANCE SHEET

at 31 March 2016

	Notes	2016 £000	2015 £000
Assets			
Non-current assets			
Investments		**58,790**	55,529
Fixed income government securities		**1,450**	2,438
Financial assets at fair value through profit or loss	7	**60,240**	57,967
Trade and other receivables	8	**955**	603
		61,195	58,570
Current assets			
Trade and other receivables	8	**1,117**	497
Cash on fixed term deposit	9	**16,051**	-
Cash and cash equivalents	9	**18,619**	29,775
		35,787	30,272
Liabilities			
Current liabilities			
Trade and other payables	10	**(1,259)**	(1,122)
Net current assets		**34,528**	29,150
Net assets		**95,723**	87,720
Shareholders' equity			
Share capital	11	**9,935**	9,205
Share premium account		**27,231**	20,936
Capital redemption reserve		**221**	221
Capital reserve		**37,418**	40,334
Investment holding gains		**18,878**	15,735
Revenue reserve		**2,040**	1,289
Total shareholders' equity		**95,723**	87,720
Basic and diluted net asset value per ordinary share	12	**100.0p**	98.8p

The accompanying notes on pages 55 to 75 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of directors on 16 June 2016 and were signed on its behalf by:

Helen Sinclair
Chairman

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Capital reserve £000	Investment holding gains (losses) £000	Revenue reserve £000	Total equity £000
Balance at 31 March 2014	6,386	23,165	221	16,535	15,879	398	62,584
Revenue return for the year before tax	-	-	-	-	-	*1,526*	*1,526*
Capital expenses	-	-	-	*(1,518)*	-	-	*(1,518)*
Gain on investments held at fair value	-	-	-	-	*2,468*	-	*2,468*
Gain on disposal of investments in the year	-	-	-	*1,567*	-	-	*1,567*
Taxation	-	-	-	*103*	-	*(103)*	-
Total comprehensive income for the year	-	-	-	152	2,468	1,423	4,043
Issue of share capital	*2,693*	*24,768*	-	-	-	-	*27,461*
Issue costs	-	*(1,189)*	-	*(146)*	-	-	*(1,335)*
Issue of shares – DRIS	*126*	*1,040*	-	-	-	-	*1,166*
Issue costs - DRIS	-	*(37)*	-	-	-	-	*(37)*
Purchase of own shares	-	-	-	*(678)*	-	-	*(678)*
Dividends	-	-	-	*(4,943)*	-	*(532)*	*(5,475)*
Share premium cancellation	-	*(26,811)*	-	*26,802*	-	-	*(9)*
Total transactions with owners	2,819	(2,229)	-	21,035	-	(532)	21,093
Realisation of prior year investment holding gains	-	-	-	2,612	(2,612)	-	-
Balance at 31 March 2015	**9,205**	**20,936**	**221**	**40,334**	**15,735**	**1,289**	**87,720**
Revenue return for the year before tax	-	-	-	-	-	*2,401*	*2,401*
Capital expenses	-	-	-	*(2,315)*	-	-	*(2,315)*
Gain on investments held at fair value	-	-	-	-	*6,488*	-	*6,488*
Gain on disposal of investments in the year	-	-	-	*3,835*	-	-	*3,835*
Taxation	-	-	-	*278*	-	*(278)*	-
Total comprehensive income for the year	-	-	-	1,798	6,488	2,123	10,409
Issue of share capital	*507*	*4,696*	-	-	-	-	*5,203*
Issue costs	-	*(197)*	-	*(27)*	-	-	*(224)*
Issue of shares – DRIS	*223*	*1,850*	-	-	-	-	*2,073*
Issue costs - DRIS	-	*(54)*	-	-	-	-	*(54)*
Purchase of own shares	-	-	-	*(316)*	-	-	*(316)*
Dividends	-	-	-	*(7,716)*	-	*(1,372)*	*(9,088)*
Total transactions with owners	730	6,295	-	(8,059)	-	(1,372)	(2,406)
Realisation of prior year investment holding gains	-	-	-	3,345	(3,345)	-	-
Balance at 31 March 2016	**9,935**	**27,231**	**221**	**37,418**	**18,878**	**2,040**	**95,723**

The accompanying notes on pages 55 to 75 are an integral part of these financial statements.

Statement of Changes in Equity (continued)
for the year ended 31 March 2016

Reserves available for distribution

Under the Companies Act 2006 the capital reserve and revenue reserve are distributable reserves. The table below shows the amounts that are available for distribution.

	Capital reserve £000	Revenue reserve £000	Total £000
Distributable reserves on page 52	**37,418**	**2,040**	**39,458**
Less cancelled share premium not yet distributable	*(2,093)*	*-*	*(2,093)*
Less interest and dividends not yet distributable	*-*	*(1,196)*	*(1,196)*
Reserves available for distribution[1]	**35,325**	**844**	**36,169**

1 Subject to filing these financial statements at Companies House.

The capital reserve and revenue reserve are both distributable reserves. These reserves total £39,458,000 representing a decrease of £2,165,000 during the year. 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.

Of the potentially distributable reserves of £39,458,000 shown above, £1,196,000 relates to interest and dividends receivable from 2018 onwards, and £2,093,000 of cancelled share premium which will become distributable on 1 April 2018.

Upon filing these accounts at Companies House, the reserves available for distribution will be £36,169,000.

STATEMENT OF CASH FLOWS

for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Net cash outflow from operating activities		**(70)**	(401)
Cash flows from investing activities			
Cash (placed on) / maturing from fixed term deposit		**(16,051)**	2,000
Purchase of financial assets at fair value through profit or loss		**(5,427)**	(19,981)
Proceeds from sale of financial assets at fair value through profit or loss		**13,088**	8,326
Net cash outflow from investing activities		**(8,390)**	(9,655)
Cash flows from (used in) in financing activities			
Issue of ordinary shares		**5,203**	26,953
Costs of ordinary share issues*		**(572)**	(868)
Purchase of own ordinary shares		**(316)**	(956)
Share premium reduction costs		**-**	(9)
Dividends paid	5	**(9,084)**	(5,417)
Shares issued under DRIS		**2,073**	1,166
Net cash (used in) / from financing activities		**(2,696)**	20,869
Net (decrease) increase in cash and cash equivalents		**(11,156)**	10,813
Cash and cash equivalents at the beginning of the year		**29,775**	18,962
Cash and cash equivalents at the end of the year	9	**18,619**	29,775

*Issue costs include both fundraising costs and expenses incurred from the Company's DRIS.

The accompanying notes on pages 55 to 75 are an integral part of these financial statements.

RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2016 £000	2015 £000
Profit before taxation	**10,409**	4,043
Increase in trade and other receivables	**(386)**	(712)
Increase in trade and other payables	**427**	311
Gain on disposal of investments	**(3,835)**	(1,567)
Gains on investments held at fair value	**(6,488)**	(2,468)
Capitalised interest and dividends	**(197)**	(8)
Net cash outflow from operating activities	**(70)**	(401)

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Basis of Preparation

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

The financial statements have been prepared under the historical cost basis 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 AIC in November 2014 (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. New standards coming into force during the year have not had a material impact on these financial statements.

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 amendments to IFRS 9, 10, 11 and 15 and amendments to IAS 27 and 28. A full assessment of the impact of the new accounting standards and amendments applicable to the Company has not been performed, but is not expected to be material to these financial statements.

The financial statements are presented in sterling and all values are rounded to the nearest thousand (£000), except where stated.

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.

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.

Investments in quoted Government securities and corporate bonds 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 profit or loss.

Redemption premiums are designed to protect the value of the Company's investment. These are accrued daily on an effective rate basis 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).

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. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates' which gives exemptions from equity accounting for venture capital organisations.

Under IFRS10 "Consolidated Financial Statements", control is presumed to exist when the Company has power over an investee (whether or not used in practice); exposure or rights; to variable returns from that investee, and ability to use that power to affect the reporting entities returns from the investees. The Company does not hold more than 50 per cent of the equity of any of the companies within the portfolio. The Company does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

Valuation of Investments

Unquoted investments are valued in accordance with IFRS 13 "Fair Value Measurement" and, where appropriate, the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines ("the Guidelines") issued in December 2015. Quoted investments are valued at market bid prices. A detailed explanation of the valuation policies of the Company is included below.

1. Principal Accounting Policies (continued)

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 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 2016.

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 and preference dividends are rolled up and/or payable at redemption then they are recognised as income unless there is reasonable doubt as to their receipt.

Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Revenue column of the Statement of Comprehensive Income, except for the Investment Adviser's fees and incentive fees. Of the Investment Adviser's fees (including rebates as detailed in note 3) 75 per cent are 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 Investment Adviser (as set out in note 3) is charged wholly through the Capital column.

Tax relief is allocated to the Capital Reserve 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.

Balances held in fixed term deposits are not classified as cash and cash equivalents, unless they are due for maturity within three months from inception, 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 advisory and incentive fees payable to the Investment Adviser. 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.

Share Capital and Reserves

Share Capital

This reserve contains the nominal value of all shares allotted under offers for subscription.

Share Premium Account

This reserve contains the excess of gross proceeds less issue costs over the nominal value of shares allotted under offers for subscription, to the extent that it has not been cancelled.

Capital Redemption Reserve

The nominal value of shares bought back and cancelled is held in this reserve, so that the Company's capital is maintained.

Capital Reserve

The following are included within this reserve:

- Gains and losses on realisation of investments;
- Realised losses upon permanent diminution in value of investments;
- 75 per cent of the Investment Adviser's fee expense, together with the related taxation effect to this reserve in accordance with the policy on expenses in note 1 of the financial statements;
- Incentive fee payable to the Investment Adviser;
- Capital dividends paid to shareholders;
- Purchase and holding of the Company's own shares;
- Credit arising from the cancellation of the share premium account.

Investment Holding Gains (Losses) Reserve

Increases and decreases in the valuation of investments held at the year-end are accounted for in this reserve, except to the extent that the diminution is deemed permanent.

In accordance with stating all investments at fair value through the profit and loss, all such movements through both revaluation and realised capital reserves are shown within the Statement of Comprehensive Income for the year.

Revenue Reserve

This reserve includes all income from investments along with any costs associated with the running of the Company – less 75 per cent of the advisory fee expense as detailed in the Capital Reserve above.

1. Principal Accounting Policies (continued)

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. Deferred tax assets and liabilities are not discounted.

Dividends Payable

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

Segmental Reporting

In accordance with IFRS 8 'Operating segments' and the criteria for aggregating reportable segments, segmental reporting has been determined by the directors based upon the reports reviewed by the Board. The directors are of the opinion that the Company has engaged in a single operating segment - investing in equity and debt securities within the United Kingdom - and therefore no reportable segmental analysis is provided.

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, as disclosed in note 7 to the financial statements.

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

	2016 £000	2015 £000
Dividends from unquoted companies	**979**	458
Dividends from quoted companies	**34**	66
Interest on loans to unquoted companies	**2,061**	1,612
Fixed interest Government securities	**20**	35
Income from investments held at fair value through profit or loss	**3,094**	2,171
Interest on bank deposits	**271**	139
	3,365	2,310

In addition, an amount of £44,000 (2015: £44,000) of income in relation to loan interest has not been recognised due to uncertainty over its future receipt.

3. Administrative Expenses

		2016 £000	2015 £000
Investment Adviser's fee (net of rebate)		**1,776**	1,272
Incentive fee		**983**	564
Administration fee		**60**	59
Total payable to YFM Private Equity Limited		**2,819**	1,895
Other expenses:			
Trail commission paid to financial intermediaries		**163**	108
Directors' remuneration (comprises only short term benefits including social security contributions of £9,000 (2015: £9,000))		**100**	101
Listing and registrar fees		**70**	51
General expenses		**53**	50
Auditor's remuneration	– audit of the statutory financial statements (excluding irrecoverable VAT)	**27**	22
	– audit related assurance services	**-**	8
Irrecoverable VAT		**24**	29
Printing		**23**	38
		3,279	2,302
Ongoing charges figure		**2.29%**	2.29%

No fees are payable to the auditor in respect of other services (2015: £8,000).

The directors are the Company's only key management personnel.

Fund Administration

YFM Private Equity Limited provides Investment Advisory services to the Company under an Administrative and Investment Advisory agreement (IAA) dated 28 February 1996 as varied by agreements dated 16 November 2012, 17 October 2014 and 24 August 2015. The agreement may be terminated by not less than 12 months' notice given by either party at any time. No notice has been issued to or by YFM Private Equity Limited terminating the contract as at the date of this Report.

The key features of the agreement are:

- YFM Private Equity Limited receives an Investment Advisory fee, calculated at half-yearly intervals as at 31 March and 30 September, at the rate of 2 per cent of gross assets less current liabilities. The Investment Advisory fee is allocated between capital and revenue as described in note 1. The fee is payable quarterly in advance. The increase in the value of the assets resulted in the fee totalling £1,776,000 for the year ended 31 March 2016 (2015: £1,272,000), net of the rebate set out below;
- 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 and totalled £60,000 for the year to 31 March 2016 (2015: £59,000); and
- Under a deed of variation dated 17 October 2014 YFM Private Equity Limited shall bear the annual operating costs (including the advisory fee set out above but excluding any payment of the performance incentive fee, details of which are set out below and excluding VAT and trail commissions payable to financial intermediaries) of the Company to the extent that those costs exceed 2.9 per cent of the net asset value of the Company, a reduction from the previous level of 3.25 per cent. The excess expenses during the year payable to the Company from YFM Private Equity Limited amounted to £nil (2015: £nil).

When the Company makes investments into its unquoted portfolio the Investment Adviser charges that investee an advisory fee, calculated by applying a percentage to the investment amount. The Company and the Investment Adviser have agreed that, if the average of the relevant fees during the Company's financial year exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on holdings this excess will be rebated to the Company. As at 31 March 2016, the Company was due a rebate from the Investment Adviser of £nil (2015: £2,570).

3. Administrative Expenses (continued)

Monitoring and directors fees the Investment Adviser receives from the investee companies are limited to a maximum of £40,000 (excluding VAT) per annum per company.

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, as varied by agreements dated 15 August 2014 and 13 October 2014 ("the Incentive Agreement"). Under the Incentive Agreement the Investment Adviser will receive an incentive payment equal to 20 per cent of the amount by which dividends paid in the relevant accounting period exceed 4 pence per ordinary share (increasing in line with RPI) once cumulative dividends of 10 pence per ordinary share from 1 April 2009 have been paid. These incentive payments are 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 2016 under the Incentive Agreement unless the average quarterly adjusted net asset value of the Company is a minimum of 92.7 pence per ordinary share and in addition at least 4.9 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.

The amount of the incentive payment paid to the Investment Adviser for any one year shall, when taken with all other relevant costs, ensure that the Total Expenses Ratio is no greater than 5 per cent of the net asset value at the end of the financial year (as adjusted for all realised gains that have been distributed during that year). Any unpaid incentive payment will be carried over to subsequent financial years and be included in the calculation of the Total Expenses Ratio.

Both in the current and prior year, the Investment Adviser had achieved its targets and £983,025 (2015: £564,329) has been accrued within trade and other payables. The incentive fee is payable following the Annual General Meeting on 27 July 2016.

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.

The total remuneration payable to YFM Private Equity Limited in the period was £2,819,000 (2015: £1,895,000)

Under the IAA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 March 2016 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £467,000 (2015: £865,000).

Under the terms of the offers with British Smaller Companies VCT2 plc launched on 20 October 2014 (which closed on 22 April 2015) YFM Private Equity Limited was entitled to 5.0 per cent of gross subscriptions from execution brokers and 3.0 per cent of gross subscriptions for applications through intermediaries offering financial advice or directly from applicants, less the cost of incentive shares and re-investment of intermediary commission. The net amount payable to YFM Private Equity amounted to £552,014, with £29,885 payable in the year to 31 March 2016.

Under the terms of the offer launched on 2 February 2016, YFM Private Equity Limited was entitled to 5.0 per cent of gross subscriptions from execution brokers and 3.0 per cent of gross subscriptions for applications through intermediaries offering financial advice or directly from applicants. The net amount paid to YFM Private Equity Limited under this offer amounted to £129,482.

The Investment Adviser 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).

The details of the directors' remuneration are set out in the Directors' Remuneration Report on page 44 under the heading "Directors' Remuneration for the year ended 31 March 2016 (audited)".

4. Taxation

	2016			2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	**2,401**	**8,008**	**10,409**	1,526	2,517	4,043
Profit before taxation multiplied by standard small company rate of corporation tax in the UK of 20%	**480**	**1,602**	**2,082**	305	504	809
Effect of:						
UK dividends received	**(202)**	**-**	**(202)**	(105)	-	(105)
Non-taxable profits on investments	**-**	**(2,065)**	**(2,065)**	-	(807)	(807)
Excess expenses	**-**	**185**	**185**	(97)	200	103
Tax charge (credit)	**278**	**(278)**	**-**	103	(103)	-

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

Deferred tax assets of £828,000 calculated at 17 per cent (2015: £791,000 at 20 per cent) in respect of unrelieved expenses of £4,873,000 as at 31 March 2016 (31 March 2015: £3,956,000) 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:

	2016			2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for 2015 of 3.5p per ordinary share (2015: final dividend of 3.5p per ordinary share)	**686**	**2,471**	**3,157**	188	2,098	2,286
Special interim dividend for the year ended 31 March 2016 of 3.5p per ordinary share	**-**	**3,184**	**3,184**	-	-	-
Special interim dividend for the year ended 31 March 2016 of 1.0p per ordinary share	**-**	**919**	**919**	-	-	-
Interim dividend for 2016 of 2.0p per ordinary share (2015: interim dividend of 2.0p per ordinary share and a special dividend of 2.5p per ordinary share)	**686**	**1,142**	**1,828**	344	2,845	3,189
	1,372	**7,716**	**9,088**	532	4,943	5,475
Unclaimed dividends			**(4)**			(58)
Dividends paid in the Statement of Cash Flows			**9,084**			5,417

The final dividend of 3.5 pence per ordinary share in respect of the year ended 31 March 2015 was paid on 4 August 2015 to shareholders on the register at 3 July 2015.

A special interim dividend of 3.5 pence per ordinary share in respect of the year ended 31 March 2016 was paid on 7 September 2015 to shareholders on the register at 7 August 2015.

The interim dividend of 2.0 pence per ordinary share in respect of the year ended 31 March 2016 was paid on 15 January 2016 to shareholders on the register at 11 December 2015.

5. Dividends (continued)

A second special interim dividend of 1.0 pence per ordinary share in respect of the year ended 31 March 2016 was paid on 11 March 2016 to shareholders on the register at 12 February 2016.

A final dividend of 3.5 pence per ordinary share in respect of the year to 31 March 2016 has been proposed, amounting to approximately £3.35 million. This dividend has not been recognised in the year ended 31 March 2016 as the obligation will not exist until the dividend is approved by shareholders at the Annual General Meeting on 27 July 2016.

During the year the Company has received £11,000 (2015: £92,000) from the Registrars in respect of unclaimed dividends. The Company has made efforts to contact the relevant shareholders, with the result that £7,000 (2015: £34,000) has been paid to shareholders in the year. The unclaimed balance is held in a separate bank account until contact can be made with the shareholders affected.

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 shareholders of £10,409,000 (2015: £4,043,000) and 91,323,915 (2015: 67,574,139) 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 shareholders after tax of £2,123,000 (2015: £1,423,000) and 91,323,915 (2015: 67,574,139) 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 shareholders of £8,286,000 (2015: £2,620,000) and 91,323,915 (2015: 67,574,139) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company issued 7,291,938 new ordinary shares. The Company also repurchased 364,332 of its own ordinary shares, which are held in treasury within the capital reserve. The 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.

7. Financial Assets at Fair Value through Profit or Loss

IFRS 13, 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 defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1 and comprise AIM quoted investments or government securities 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. The majority of the Company's investments fall into this category.

Each investment is reviewed at least quarterly to ensure that it has not ceased to meet the criteria of the level in which it was included at the beginning of each accounting period. There have been no transfers between these classifications in the period. During the year to 31 March 2015 Woodspeen Training plc was delisted from the ISDX and became Woodspeen Training Limited.

All items held at fair value through profit or loss were designated as such upon initial recognition.

Valuation of Investments

Full details of the methods used by the Company are set out in note 1 of these financial statements. Where investments are held in quoted stocks, fair value is set at the market bid price.

Movements in investments at fair value through profit or loss during the year to 31 March 2016 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1		Level 1	
	Unquoted Investments £000	Quoted Equity Investments £000	Total Quoted and Unquoted £000	Fixed Income Securities £000	Total Investments £000
Opening cost	37,663	2,167	**39,830**	2,402	**42,232**
Opening investment holding gain	14,997	702	**15,699**	36	**15,735**
Opening fair value at 1 April 2015	**52,660**	**2,869**	**55,529**	**2,438**	**57,967**
Additions at cost	5,426	1	**5,427**	-	**5,427**
Capitalised interest and dividends	197	-	**197**	-	**197**
Disposal proceeds	(11,321)	(1,369)	**(12,690)**	(984)	**(13,674)**
Net profit on disposal	3,562	278	**3,840**	(5)	**3,835**
Change in fair value	6,009	478	**6,487**	1	**6,488**
Closing fair value at 31 March 2016	**56,533**	**2,257**	**58,790**	**1,450**	**60,240**
Closing cost	38,934	1,004	**39,938**	1,424	**41,362**
Closing investment holding gain	17,599	1,253	**18,852**	26	**18,878**
Closing fair value at 31 March 2016	**56,533**	**2,257**	**58,790**	**1,450**	**60,240**

There have been no individual fair value adjustments during the year that exceeded five per cent of the total assets of the Company (2015: none).

All of the changes in fair value during the year to 31 March 2016 related to assets held at the year end.

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. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. Of the Company's Level 3 investments, 78 per cent are held on an earnings multiple basis, which have significant judgement applied to the valuation inputs. The table below sets out the range of Price Earnings ratios and discounts applied in arriving at investments valued on an earnings multiple basis. 21 per cent are held at cost. The remaining 1 per cent are valued based on previous investment round reviewed for fair value.

	Manufacturing & Industrial Services	Retail & Brands	Software, IT and Telecommunications	Healthcare	Business Services
Earnings Multiple					
PE Multiple Range	21.02-38.83	13.93-38.83	23.48-30.05	16.97	25.21-31.46
PE Multiple Weighted Average	24.02	15.79	27.69	16.97	26.62
Combined PE and/or Marketability Discount Range	60%-78%	32%-78%	36%-60%	48%	60%-68%
Combined PE and/or Marketability Discount Weighted Average	65%	39%	56%	48%	62%

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

The standard also 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. Each unquoted portfolio company has been reviewed in order to identify the sensitivity of the valuation methodology to using alternative assumptions. Where discounts have been applied (for example to Earnings levels or PE Multiples) alternatives have been considered which would still fall within the IPEVC Guidelines (see page 56). For each unquoted investment, two scenarios have been modelled: more prudent assumptions (downside case) and more optimistic assumptions (upside case). Applying the downside alternatives the value of the unquoted investments would be £4.14 million or 7.3 per cent lower. Using the upside alternative the value would be increased by £4.21 million or 7.4 per cent.

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.

Movements in investments at fair value through profit or loss during the year to 31 March 2015 are summarised below.

IFRS 13 measurement classification	Level 3	Level 1		Level 1	
	Unquoted Investments £000	Quoted Equity Investments £000	Total Quoted and Unquoted £000	Fixed Income Securities £000	Total Investments £000
Opening cost	22,063	2,710	**24,773**	2,436	**27,209**
Opening investment holding gain (loss)	13,842	1,247	**15,089**	(33)	**15,056**
Opening fair value at 1 April 2014	**35,905**	**3,957**	**39,862**	**2,403**	**42,265**
Transfer between Level 1 & Level 3 [1]	48	(48)	**-**	-	**-**
Additions at cost	18,541	509	**19,050**	963	**20,013**
Capitalised interest	8	-	**8**	-	**8**
Disposal proceeds	(6,618)	(776)	**(7,394)**	(960)	**(8,354)**
Net profit on disposal	1,530	37	**1,567**	-	**1,567**
Change in fair value	3,246	(810)	**2,436**	32	**2,468**
Closing fair value at 31 March 2015	**52,660**	**2,869**	**55,529**	**2,438**	**57,967**
Closing cost	37,663	2,167	**39,830**	2,402	**42,232**
Closing investment holding gain	14,997	702	**15,699**	36	**15,735**
Closing fair value at 31 March 2015	**52,660**	**2,869**	**55,529**	**2,438**	**57,967**

1. During the year Woodspeen Training plc was delisted from ISDX becoming Woodspeen Training Limited. All of the changes in fair value during the year related to assets held at the year end.

The following disposals and loan repayments took place in the year:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 April 2015 £000	Gain (loss) on opening carrying value £000	Profit (loss) on cost £000
Unquoted investments					
Bagel Nash Group Limited	120	120	120	-	-
Callstream Group Limited	742	329	750	(8)	413
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	100	100	100	-	-
DisplayPlan Holdings Limited	535	412	486	49	123
Harvey Jones Holdings Limited	780	780	780	-	-
Insider Technologies (Holdings) Limited	1,159	1,170	755	404	(11)
Macro Art Holdings Limited	146	146	146	-	-
President Engineering Group Limited	7,634	500	4,559	3,075	7,134
Wakefield Acoustics (via Malvar Engineering Limited)	15	15	15	-	-
Woodspeen Training Limited	86	250	48	38	(164)
Lightmain Company Limited	-	529	-	-	(529)
Quoted investments					
AB Dynamics plc	528	165	289	239	363
Cambridge Cognition Holdings plc	133	203	136	(3)	(70)
Gamma Communications plc	249	114	162	87	135
Hargreaves Services plc	216	310	239	(23)	(94)
Pressure Technologies plc	243	182	265	(22)	61
Other	-	190	-	-	(190)
Total from disposals in the year	**12,686**	**5,515**	**8,850**	**3,836**	**7,171**
Deferred proceeds received					
Ellfin Home Care Limited	4	-	-	4	4
Total from quoted and unquoted investments	**12,690**	**5,515**	**8,850**	**3,840**	**7,175**
Fixed income securities	984	979	989	(5)	5
Total	**13,674**	**6,494**	**9,839**	**3,835**	**7,180**

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

The following disposals and loan repayments took place in the year to 31 March 2015:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 April 2014 £000	Gain (loss) on opening carrying value £000	Profit (loss) on cost £000
Unquoted investments					
Bagel Nash Group Limited	120	120	120	-	-
Callstream Group Limited	134	87	134	-	47
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	25	25	25	-	-
DisplayPlan Holdings Limited	564	434	486	78	130
GO Outdoors Topco Limited	412	2	442	(30)	410
GTK (Holdco) Limited	456	456	456	-	-
Harvey Jones Holdings Limited	699	699	699	-	-
Macro Art Holdings Limited	56	56	56	-	-
President Engineering Group Limited	300	300	300	-	-
Waterfall Services Limited	3,854	100	2,372	1,482	3,754
Quoted investments					
Belgravium Technologies plc	59	163	45	14	(104)
Cambridge Cognition Holdings plc	65	122	61	4	(57)
Mattioli Woods plc	200	57	188	12	143
Pressure Technologies plc	160	34	164	(4)	126
Vianet Group plc	290	404	279	11	(114)
	7,394	**3,059**	**5,827**	**1,567**	**4,335**
Deferred proceeds received					
Primal Pictures Limited	3	-	3	-	3
Total from quoted and unquoted investments	**7,397**	**3,059**	**5,830**	**1,567**	**4,338**
Fixed income securities	960	996	960	-	(36)
Total	**8,357**	**4,055**	**6,790**	**1,567**	**4,302**

Significant Interests

YFM Private Equity Limited, the Company's Investment Adviser, also acts as investment adviser to certain other funds under its management that have invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised in the tables below.

At 31 March 2016 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly advised/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 advised/ managed funds*
ACC Aviation (via Newacc (2014) Limited)	Business Services	21,780,000	22%	55%
Bagel Nash Group Limited	Food Retail and Manufacturing	49,648	7%	40%
Business Collaborator Limited	Software, IT & Telecoms	189,000	29%	48%
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	Manufacturing & Industrial Services	150,000	24%	43%
Deep-Secure Limited	Software, IT & Telecoms	99,357	16%	50%
DisplayPlan Holdings Limited	Business Services	2,340	23%	35%
EL Support Services Limited	Business Services	3,500	50%	100%
Fairlight Bridge Limited	Business Services	2	50%	50%
Gill Marine Holdings Limited	Retail & Brands	184,675	19%	66%
GTK (Holdco) Limited	Manufacturing & Industrial Services	22,222,200	27%	45%
Harris Hill Holdings Limited	Business Services	65,714	10%	36%
Harvey Jones Holdings Limited	Retail & Brands	77,715	7%	30%
The Heritage Window Company Holdco Limited	Manufacturing & Industrial Services	1,713,600	42%	70%
Intamac Systems Limited	Software, IT & Telecoms	500,000	4%	34%
Intelligent Office (via IO Outsourcing Limited)	Business Services	159,913	27%	44%
KeTech Enterprises Limited	Software, IT & Telecoms	128,333	13%	39%
Lightmain Company Limited	Manufacturing & Industrial Services	1,178,575	33%	33%
Macro Art Holdings Limited	Business Services	150,000	19%	32%
Mangar Health Limited	Healthcare	117,832	22%	42%
NB Technology Services Limited	Software, IT & Telecoms	3,500	50%	100%
Ness (Holdings) Limited	Retail & Brands	15,000,000	26%	43%
OC Engineering Services Limited	Manufacturing & Industrial Services	3,500	50%	100%
RMS Group Holdings Limited	Manufacturing & Industrial Services	153,293	8%	23%
Seven Technologies Holdings Limited	Software, IT & Telecoms	992,175	10%	38%
SH Healthcare Services Limited	Healthcare	3,500	50%	100%
SP Manufacturing Services Limited	Manufacturing & Industrial Services	3,500	50%	100%
Springboard Research Holdings Limited	Business Services	177,840	15%	25%
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing & Industrial Services	74,400	22%	35%

* Fully diluted holding

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 advised/managed funds') percentage holding of an investee company's total equity.

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

The amounts shown below are the net cost of investments as at 31 March 2016 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT plc £000	British Smaller Companies VCT2 plc £000	British Smaller Companies EIS Fund £000	The Chandos Fund LP £000	Other Commonly managed funds £000	Total £000
AB Dynamics plc	215	186	-	-	-	401
ACC Aviation (via Newacc (2014) Limited)	2,068	1,379	-	-	1,723	5,170
Bagel Nash Group Limited	953	635	-	2,178	-	3,766
Business Collaborator Limited	2,010	1,340	-	-	-	3,350
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	1,675	1,117	-	-	-	2,792
Deep-Secure Ltd	1,000	500	-	2,000	-	3,500
DisplayPlan Holdings Limited	130	70	-	-	-	200
Dryden Human Capital Group Limited	609	-	248	1,392	731	2,980
EKF Diagnostics Holdings plc	448	437	-	-	-	885
EL Support Services Limited	500	500	-	-	-	1,000
Gamma Communications plc	139	95	-	-	-	234
Gill Marine Holdings Limited	2,500	1,870	600	4,000	-	8,970
GTK (Holdco) Limited	1,237	813	250	-	-	2,300
Harris Hill Holdings Limited	600	-	-	2,349	-	2,949
Harvey Jones Holdings Limited	1,203	723	-	223	-	2,149
The Heritage Window Company Holdco Limited	2,203	1,468	-	-	-	3,671
Intamac Systems Limited	276	828	-	2,302	-	3,406
Intelligent Office (via IO Outsourcing Limited)	2,934	1,956	-	-	-	4,890
KeTech Enterprises Limited	2,000	2,000	-	-	1,000	5,000
Leengate Holdings Limited	1,401	934	-	-	-	2,335
Macro Art Holdings Limited	1,058	705	-	-	-	1,763
Mangar Health Limited	2,460	1,640	500	-	-	4,600
NB Technology Services Limited	500	500	-	-	-	1,000
Ness (Holdings) Limited	1,528	1,019	-	-	-	2,547
OC Engineering Services Limited	500	500	-	-	-	1,000
PowerOasis Limited	445	594	-	1,186	-	2,225
RMS Group Holdings Limited	180	70	-	250	-	500
Selima Holding Company Ltd	600	300	-	-	-	900
Seven Technologies Holdings Limited	1,984	1,238	370	3,941	-	7,533
SH Healthcare Services Limited	500	500	-	-	-	1,000
SP Manufacturing Services Limited	500	500	-	-	-	1,000
Springboard Research Holdings Limited	2,469	1,646	-	-	-	4,115
TeraView Limited	375	375	-	-	-	750
Wakefield Acoustics (Via Malvar Engineering Limited)	1,140	761	-	-	-	1,901

8. Trade and Other Receivables

	2016 £000	2015 £000
Non-current assets:		
Accrued income	**955**	603
	955	603
Amounts receivable within one year:		
Trade receivables	**1,060**	469
Other debtors	**-**	3
Prepayments and accrued income	**57**	25
	1,117	497
	2,072	1,100

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 2016 no trade receivables were past due but not impaired (2015: £nil).

As of 31 March 2016, trade receivables of £95,000 (2015: £165,000) were impaired and provided for.

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £2,015,000 (2015: £1,075,000). 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

	2016 £000	2015 £000
Cash at bank	**18,619**	29,775
Cash and cash equivalents	**18,619**	29,775

At 31 March 2016 a further £16.1 million was also held in fixed term deposit accounts with a weighted average time to maturity of four months. In accordance with the definition of cash and cash equivalents the amount is shown separately on the face of the balance sheet.

10. Trade and Other Payables

	2016 £000	2015 £000
Amounts payable within one year:		
Incentive fee	**983**	564
Other creditors	**276**	558
	1,259	1,122

11. Called-up Share Capital

	2016 Allotted, Called-up and Fully paid £000	2015 Allotted, Called-up and Fully paid £000
Ordinary shares of 10.0 pence each		
Issued: 99,345,335 (2015: 92,053,397) including 3,589,665 shares held in treasury (2015: 3,225,333)	**9,935**	9,205

The movements in the year were as follows:

		Price	Date	Number of shares	Share Capital £000
Total as at 1 April 2015				92,053,397	9,205
Issue of shares	Fundraising	99.26 – 101.58 pence	22 April 2015	1,385,722	139
Issue of shares	DRIS	94.72 pence	4 August 2015	750,029	75
Issue of shares	DRIS	91.39 pence	7 September 2015	803,289	81
Issue of shares	DRIS	91.49 pence	15 January 2016	453,191	45
Issue of shares	Fundraising	103.45 pence	24 February 2016	3,672,283	367
Issue of shares	DRIS	94.15 pence	11 March 2016	227,424	23
As at 31 March 2016 (including treasury shares)				**99,345,335**	**9,935**
As at 31 March 2016 (excluding treasury shares)				**95,755,670**	**-**

During the year the Company purchased 364,332 (2015: 755,831) of its own ordinary shares at a price of 86.83 pence and these are held on the balance sheet in the Capital Reserve. The 3,589,665 (2015: 3,225,333) 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 2016 and 31 March 2015.

The movements in the year to 31 March 2015 were as follows:

		Price	Date	Number of shares	Share Capital £000
Total as at 1 April 2014				63,855,189	6,386
Issue of shares	Fundraising	100.75-106.76 pence	4 April 2014	1,312,175	131
Issue of shares	Fundraising	100.75-106.76 pence	5 April 2014	466,746	46
Issue of shares	Fundraising	100.75-105.51 pence	29 May 2014	2,400,125	240
Issue of shares	DRIS	93.59 pence	1 August 2014	492,870	49
Issue of shares	Fundraising	100.25-105.80 pence	6 January 2015	6,986,643	699
Issue of shares	DRIS	92.245 pence	7 January 2015	306,163	31
Issue of shares	Fundraising	102.00-106.81 pence	2 February 2015	2,526,397	253
Issue of shares	Fundraising	99.50-104.18 pence	2 March 2015	4,271,537	427
Issue of shares	DRIS	91.485 pence	3 March 2015	461,272	46
Issue of shares	Fundraising	99.50-104.18 pence	30 March 2015	8,974,280	897
As at 31 March 2015 (including treasury shares)				**92,053,397**	**9,205**
As at 31 March 2015 (excluding treasury shares)				**88,828,064**	**-**

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 £95,723,000 (2015: £87,720,000) and 95,755,670 (2015: 88,828,064) ordinary shares with voting rights in issue at the year end.

The treasury shares have been excluded in calculating the number of ordinary shares in issue at 31 March 2016.

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 108.7 pence per ordinary share (2015: 98.7 pence per ordinary share) plus the net asset value as calculated in note 12.

14. Financial Commitments

At 31 March 2016 the Board had committed a total of £0.03 million into existing portfolio companies subject to satisfactory due diligence and legal completion.

15. Related Party Transactions

During the year the Company's investment in Pressure Technologies plc was sold, as shown in note 7.

Mr P S Cammerman, a director of the Company, is a non-executive director of Pressure Technologies plc. During the year to 31 March 2016 he received £32,500 (2015: £30,000) from Pressure Technologies plc in respect of his services. He also holds a 0.23 per cent equity stake in Pressure Technologies plc.

16. Events after the Balance Sheet Date

There are no events after the balance sheet date to report.

17. 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, and classifies its financial liabilities as payables.

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.

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

17. Financial Instruments (continued)

Assets as per balance sheet

	2016		2015	
	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
Non-current assets				
Financial assets at fair value through profit or loss	**-**	**60,240**	-	57,967
Accrued income	**955**	**-**	603	-
	955	**60,240**	603	57,967
Current assets				
Cash and cash equivalents	**18,619**	**-**	29,775	-
Cash on fixed term deposit	**16,051**	**-**	-	-
Trade and other receivables	**1,060**	**-**	472	-
	36,685	**60,240**	30,850	57,967
Other assets – not financial instruments	**57**	**-**	25	-
	36,742	**60,240**	30,875	57,967

Liabilities as per balance sheet

	2016 Other financial liabilities £000	2015 Other financial liabilities £000
Trade and other payables	**1,259**	1,122

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.

17a 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.

Of the Company's investments, four per cent are quoted on AIM (2015: 5 per cent). A five per cent increase in stock prices as at 31 March 2016 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £113,000 (2015: £143,000). 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 investments, 96 per cent are in unquoted companies held at fair value (2015: 95 per cent). The valuation methodology for these investments includes the application of externally produced FTSE® PE 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 Guidelines described within note 1. 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 £4,344,000 (4.5 per cent of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's shareholders and the total profit for the year by £4,238,000 (4.4 per cent of net assets).

Other valuations are valued at the price of recent investment, reviewed and discounted where the fair value of the investment no longer equates to the cost of the recent investment. 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 less than 0.1 per cent of net assets.

The largest single concentration of risk relates to the Company's investment in GO Outdoors Topco Limited which constitutes 9.8 per cent (2015: 7.4 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 1.7 per cent (2015: 1.7 per cent) of the value of net assets.

Comparison of realised proceeds to unrealised valuations

The information provided in the table below compares the realised proceeds to the unrealised valuations one year prior to sale for all disposals of unquoted investments over the last ten years.

	Date of Disposal	Sale proceeds £000	Valuation £000	Gain (loss) £000
Full disposal				
Harlands of Hull Limited	June 2005	1,589	500	1,089
International Resource Group Limited	December 2005	1,388	845	543
Secure Mail Services Limited	September 2006	1,206	1,009	197
JDA Group Limited	June 2007	290	629	(339)
RMF Engineering Limited	October 2007	241	35	206
Tekton Limited	March 2008	504	200	304
Images at Work Limited	December 2009	49	94	(45)
Sheet Piling (UK) Limited	March 2010	1,288	750	538
Freshroast Coffee Co. Limited	November 2010	29	30	(1)
Primal Pictures Limited	August 2012	592	369	223
Fishawack Limited	March 2013	1,303	896	407
Ellfin Homecare Limited	December 2014	4	-	4
Waterfall Services Limited	December 2014	3,854	2,372	1,482
President Engineering Group Limited	July 2015	7,634	4,071	3,563
Insider Technologies (Holdings) Limited	October 2015	1,159	880	279
Callstream Group Limited	March 2016	742	773	(31)
		21,872	**13,453**	**8,419**
Partial disposal				
GO Outdoors Topco Limited	April 2011	6,535	1,311	5,224

17. Financial Instruments (continued)

Interest Rate Risk

The Company's venture capital investments include £22,146,000 (2015: £22,204,000) of loan stock at cost in unquoted companies. The majority of this loan stock at 31 March 2016 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 £1,650,000 (2015: £900,000) 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. 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. A sensitivity analysis has not been performed as the amounts involved are not considered to be significant.

	2016			2015		
	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months
Fixed rate loan stock and preference shares	**29,090**	**9.1**	**35**	29,438	9.1	45
Fixed income securities	**1,450**	**1.1**	**23**	2,438	1.4	27
Cash on fixed term deposit	**16,051**	**1.6**	**4**	-	-	-
Combined	**46,591**	**6.3**	**24**	31,786	8.5	44

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

17b 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 Investment Adviser has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets, excluding equity investments but including preference shares, loan stock and cash on deposit with banks, total £69,027,000 (2015: £63,536,000) 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. 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 Investment Adviser 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 banks and brokers (for the gilts) used by the Company are well established and reputable. Should the credit quality or the financial position of the banks or broker deteriorate significantly the Investment Adviser, 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:

	2016 £000				2015 £000			
	<1 year	1-2 years	2-5 years	>5 years	<1 year	1-2 years	2-5 years	>5 years
Unquoted Loan Investments	**3,607**	**3,254**	**14,889**	**396**	3,797	2,710	14,070	1,627

There were no loans past due at 31 March 2016 (2015: £nil).

17c 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 interest bearing bank deposit accounts. Investments in liquid funds are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise.

The Company's liquidity risk is managed on an ongoing basis by the Investment Adviser 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 net assets, 36.2 per cent (2015: 33.9 per cent) are in the form of liquid cash and cash equivalents and fixed term deposits at banks. There are no undrawn committed borrowing facilities at either year end. The Company does not have a material liability as at the year end.

18. 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 2016 was £95.7 million (2015: £87.7 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, 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 27 July 2016 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 2016 be received.

(2) That the final dividend of 3.5 pence per ordinary share for the year ended 31 March 2016 be approved.

(3) That the Directors' Remuneration Report for the year ended 31 March 2016 be approved other than the part of such report containing the Directors' Remuneration Policy.

(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 BDO 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 and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") 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 £4,000,000, during the period commencing on the passing of this Resolution and expiring on the later of 15 months from the passing of this Resolution or the next Annual General Meeting of the Company (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, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolution

(9) That the directors be and are hereby empowered in accordance with Section 570(1) of the Act during the period commencing on the passing of this Resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of this Resolution, whichever is the later, (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the directors in Resolution 8 above as if Section 561 of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with the allotment for cash of equity securities up to an aggregate nominal amount of £4,000,000, but so that this authority shall allow the Company to make offers or agreements before the expiry and the directors may allot 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 Act as if in the first paragraph of this Resolution the words "pursuant to the general authority conferred upon the directors in Resolution 8 above" were omitted.

BY ORDER OF THE BOARD

The City Partnership (UK) Limited
Company Secretary

16 June 2016

Registered office: 5th Floor, Valiant Building, 14 South Parade, Leeds LS1 5QS

Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006, is available from www.bscfunds.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 notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority must be delivered, to Capita Asset Services, 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. If no voting indication is given in the Form of Proxy, your proxy will vote (or abstain from voting) as they think fit in relation to any matter put to the Annual General Meeting.

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 Asset Services, 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 Asset Services 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, a copy of the amended articles of association (marked up to show the proposed changes) 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 25 July 2016 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 25 July 2016 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

g) As at 16 June 2016, the Company's issued share capital comprised 95,755,670 ordinary shares of 10.0 pence each with a further 3,589,665 shares held in treasury. These treasury shares represented 3.7 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 16 June 2016 was 95,755,670. 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 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.

k) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution.

If no voting indication is given on the Form of Proxy, the proxy will vote or abstain from voting at his or her discretion. The proxy will also vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

l) Members may not use any electronic address provided either in this Notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate for any purpose other than those expressly stated.

m) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

BRITISH SMALLER COMPANIES VCT PLC

Form of Proxy

To be used at the Annual General Meeting of the Company to be held at 33 St James Square, London, SW1Y 4JS on 27 July 2016 at 12.00 noon

I/We (name in BLOCK CAPITALS) _____

of (address) _____

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 27 July 2016 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
Ordinary Resolutions				
1	To receive the annual report and accounts	☐	☐	☐
2	To approve a final dividend of 3.5 pence per ordinary share	☐	☐	☐
3	To approve the Directors' Remuneration Report	☐	☐	☐
4	To re-elect Ms H Sinclair as a director	☐	☐	☐
5	To re-elect Mr C W E R Buchan as a director	☐	☐	☐
6	To re-elect Mr P S Cammerman as a director	☐	☐	☐
7	To re-appoint BDO LLP as auditor	☐	☐	☐
8	To authorise the directors to allot shares (other than pursuant to the dividend re-investment scheme)	☐	☐	☐
Special Resolution				
9	To waive pre-emption rights in respect of the allotment of shares (other than pursuant to the dividend re-investment scheme)	☐	☐	☐

Signature **Dated** **2016**

Please refer to notes overleaf.

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

If you would like to submit your form of proxy using the web-based voting facility go to www.capitashareportal.com. You will be asked to enter your investor code, surname and postcode to be able to lodge your vote. Your investor code can be found on your share certificate or recent tax voucher.

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 27 July 2016 at 12.00 noon.

NOTES

1. The Notice of the Annual General Meeting is set out on pages 76 to 79 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. 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 Asset Services, 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. If you would like to submit your form of proxy using the web-based voting facility go to www.capitashareportal.com. You will be asked to enter your investor code, surname and postcode to be able to lodge your vote. Your investor code can be found on your share certificate or recent tax voucher.
5. Any alterations to the Form of Proxy should be initialled by the person who has signed the Form of Proxy.
6. 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.
7. 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.
8. 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.
9. 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 Asset Services, 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 Asset Services 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 10 below, the proxy appointment will remain valid.
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, sign and date, detach and return the Form of Proxy in the pre-paid envelope provided.

ADVISERS TO THE COMPANY

Investment Adviser
YFM Private Equity Limited
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