

British Smaller Companies VCT2 plc

(formerly British Smaller Technology Companies VCT 2 plc)

**Annual Report for the year ended
31 December 2010**



Contents

	Page		Page
Financial Highlights	3	Independent Auditor's Report	32
Financial Summary	4	Statement of Comprehensive Income	33
Chairman's Statement	6	Balance Sheet	34
Fund Manager's Review	8	Statement of Changes in Equity	35
Valuation of Investments	19	Statement of Cash Flows	36
Directors	20	Notes to the Financial Statements	37
Directors' Report	21	Notice of the Annual General Meeting	55
Directors' Remuneration Report	30		

British Smaller Companies VCT2 plc

(formerly British Smaller Technology Companies VCT2 plc)

British Smaller Companies VCT2 plc ("the Company") is managed by YFM Private Equity Limited ("the Fund Manager") which is a wholly owned subsidiary of YFM Equity Partners Limited and is authorised and regulated by the Financial Services Authority. YFM Equity Partners Limited is part of the GLE Group of Companies. The Company was formed in 2001 and invests in a combination of mature businesses operating in traditional industries

and emerging businesses offering opportunities in the application and development of innovation. A diverse existing portfolio of investments reduces the exposure to particular markets and individual companies. It currently has 22 investments with the cost of investments being £10.5 million and with a current audited valuation of £6.9 million as at 31 December 2010 (2009: £6.2 million).

Financial Calendar

Ex-dividend Date 11 May 2011

Record Date 13 May 2011

Results Announced 01 April 2011

Annual General Meeting 16 May 2011

Dividend Paid 10 June 2011

Financial Highlights

Net Asset Value

Despite the marginal decrease in the Net Asset Value during the year, the second half of the year shows an increase of 0.3 pence per share, net of the 2.0 pence per share dividends paid. This represents an increase of 0.4%.

Dividends for the Year

Dividends for the year total 4.0 pence per share subject to Shareholder approval of proposed final 2.0 pence dividend. The average dividend over the five years ending 31 December 2010 is 4.2 pence per share; representing a yield of 7.4% on the share price at 31 March 2011.

Cumulative Dividends Paid and Declared

Cumulative dividends paid have increased in the year to 26.0 pence per share from 22.0 pence per share.

Return

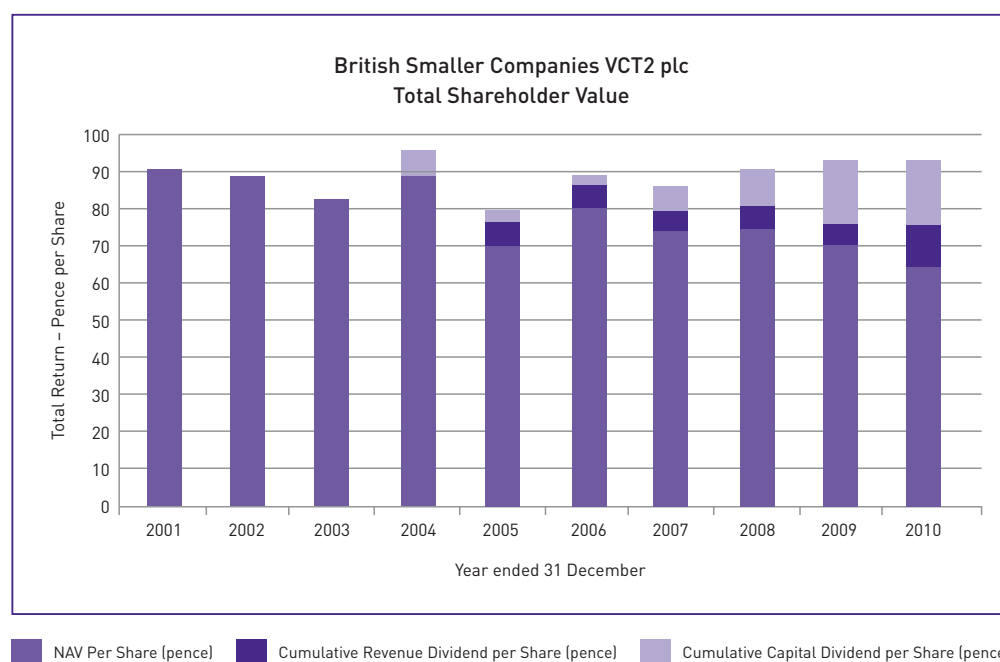
The Company's total return stands at 94.4 pence per share, this represents an increase of 18% on the after income tax cost of 80 pence per share for those investors subscribing at the Company's launch.

Financial Summary

	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	Year ended 31 December 2006
Income	£321,000	£372,000	£394,000	£339,000	£220,000
(Loss) Profit before and after tax	(£103,000)	£310,000	£558,000	(£203,000)	£1,515,000
(Loss) Earnings per share	(0.59)p	1.86p	3.35p	(1.22)p	9.00p
Cumulative dividend paid	26.0p	22.0p	16.0p	10.5p	7.0p
Net assets	£11,829,000	£12,106,000	£12,794,000	£13,151,000	£13,936,000
Net asset value per share	68.4p	72.7p	76.9p	79.0p	83.7p
Total return per share	94.4p	94.7p	92.9p	89.5p	90.7p

Total Shareholder Return and Dividend History

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



Financial Summary

Summary of Dividends by Revenue and Capital

	Revenue	Capital	Total
	Pence	Pence	Pence
Dividends paid to 31 December 2010	10.1	15.9	26.0

*Excluding dividends proposed

Total Shareholder Return by Fundraising Round

The table below shows the total return on each fundraising round per share.

	Offer Price	Offer Price Net of Tax	Net Asset Value as at 31 December 2010	Cumulative Dividends paid since Fundraisings*	Total Return since Fundraisings*	Total Return since Fundraisings with Participation in the DRIS *&**
	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02 Tax Year	100.00	80.00	68.40	26.00	94.40	98.53
2001/02 and 2002/03 Tax Year	100.00	80.00	68.40	26.00	94.40	98.53
December 2005 issue of shares on acquisition of British Smaller Technology Companies	69.00	N/A	68.40	19.00	87.40	89.62
2009/10 and 2010/11 Tax year	77.25	54.08	68.40	4.00	72.40	72.46

This table excludes the benefits of all tax reliefs.

The table below shows the example of a Shareholder who invested £3,000 in the first round. Total return is equivalent to £2,832 or £2,956 if the Shareholder had opted to participate in the dividend reinvestment scheme since its inception.

	Offer Price	Offer Price Net of Tax	Net Asset Value as at 31 December 2010	Cumulative Dividends paid since Fundraising*	Total Return since Fundraising*	Total Return since Fundraising with Participation in the DRIS *&**
2000/01 and 2001/02 Tax Year	3,000	2,400	2,052	780	2,832	2,956

*This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company.

** Assuming that all dividends since inception were invested under a dividend reinvestment scheme

Chairman's Statement

Although the challenging economic times look likely to continue through 2011, the second half of 2010 saw a gradual improvement in market conditions which benefited several of our portfolio businesses. The significant market uncertainties of recent years are gradually becoming clearer enabling management teams to plan and invest for the future which should lead to an increase in new investment opportunities in the year ahead. It is with this in mind that the Board sought to increase the Company's investment capacity through the recent linked offer with British Smaller Companies VCT plc.

Net asset value per share as at 31 December 2010 was 68.4 pence per share, a decrease of 4.3 pence per share compared to 2009. Of this decrease 4.0 pence relates to dividends paid during the year and the remainder reflects a marginal decrease in value of the fund of 0.3 pence per share. The total return, calculated by reference to net asset value plus cumulative dividends at the year end was 94.4 pence per share compared to 94.7 pence per share in 2009. Cumulative dividends at 31 December 2010 amounted to 26.0 pence per share.

Investment Portfolio

Compared to last year, 2010 has seen increased investment activity levels with a total of £1.4 million invested (2009: £0.7 million) although this is still low relative to past years.

In 2010, the Company made three new investments. In September, £500,000 was invested, alongside British Smaller Companies VCT plc, in Bluebell Telecom Group Limited. Bluebell is a telecommunications service provider that aggregates a range of services to UK businesses. The investment was made to help fund an acquisition and further acquisitions are expected as the sector consolidates. The Company invested £267,000 into Sirigen Limited in October 2010, with a further £133,000 tranche also committed dependent on the achievement of certain development milestones. This was part of a £3.0 million funding round. Sirigen is a technology company which has developed a fluorescent labelling technology to dramatically increase the sensitivity of diagnostic tests. In December 2010 £239,000 was invested into AIM-listed Brady plc, a provider of IT solutions to the metals and commodities markets.

In addition, the Company has invested a total of £353,000 by way of follow-on funding, in support of three existing companies in the portfolio. £182,000 was invested in Immunobiology as part of a £1.7 million funding round from the existing investor syndicate, bringing our total investment to date to £1.03 million. This additional funding is in support of progressing target vaccines through to human trials and ultimately realising the value of the underlying technology platforms. An investment of £150,000 was made into Silistix as part of a £635,000 round from existing investors to enhance the product offering and to try to build trade partnerships. A further investment of £21,000 was also made into Ellfin Home Care as part of a £250,000 working capital round.

Although there have been no large divestments from the portfolio during the year, the Company has received proceeds of £695,000. This

includes £298,000 of deferred proceeds in respect of DxS, taking total amounts received to £2.1 million, representing a 12.9x return on capital invested. A further £259,000 of deferred consideration is anticipated from DxS, which has been included within debtors at the year end. £189,000 has been received from RMS as a result of a successful recapitalisation of this port operator in August 2010. In addition, Primal Pictures redeemed preference shares of £205,000 out of surplus cash flow. Proceeds received during the year, together with the DxS deferred consideration generated a profit of £390,000 above previous carrying values. After a loss of £20,000 on realisation of the gilt portfolio the total profits for the year were £370,000.

The overall increase in the value of the investment portfolio including gilts is an increase of £118,000 after taking account of realised gains on investments of £370,000 and unrealised losses on investments held at fair value of £252,000.

Across the unquoted portfolio good progress has been made by a number of businesses who have seen profits grow despite the challenging economic environment. These include Primal Pictures (value increased by £366,000), RMS (value increased by £265,000), Harvey Jones (value increased by £165,000) and Waterfall Services (value increased by £83,000). However these gains were negated by write downs of £517,000 in respect of Digital Healthcare and £460,000 in respect of Silistix. Digital Healthcare has accepted that the US rollout of its Retasure™ product will be much slower than expected although good progress has been made in the UK. After failing to achieve commercial traction the Company's investment in Silistix has been written down to zero. It is hoped that some value can be realised in the year ahead. Overall, the portfolio remains well funded and should be well placed for value growth as individual growth strategies are implemented and economic conditions improve.

The AIM portfolio overall has remained relatively stable during the year with steady progress being achieved by most businesses with the exception of Pressure Technologies plc which has seen its value fall by £110,000 due to the Gulf of Mexico oil crisis.

Although higher than 2009 levels, the number of investment opportunities considered and executed during the year is well below historic levels. It is not expected that this situation will suddenly change but we do expect a gradual increase in investment activity as the macro economic factors become clearer and business owners and funders are able to plan and take investment decisions. History has shown that the best returns have been made from investments as the economy begins to grow following a recession and the Company remains well placed to take advantage of good opportunities as they occur.

A comprehensive review of the investment portfolio can be found within the Fund Manager's Review on pages 8 to 18.

Chairman's Statement

Financial Results

The result for the financial year ended 31 December 2010 was a pre-tax loss of £0.10 million which comprised a loss in respect of capital of £0.11 million and revenue profit of £0.01 million, as compared to a pre-tax profit of £0.31 million in 2009 (which comprised a capital profit of £0.24 million and revenue profit of £0.07 million). Net of the 4.0 pence dividends paid during the year, this amounts to a reduction of the net asset value of 0.3 pence per share (2009: increase of 1.8 pence net of 6.0 pence dividends).

The movement in net asset value per share in the year was:

	Pence/share
31 December 2009	72.7
Dividends paid in the year	(4.0)
Net decrease in value	(0.3)
31 December 2010	68.4

Cash and gilt investments at the end of the year amounted to £4.49 million, representing 38% of net asset value. Further realisations will enhance cash reserves and enable distributions to Shareholders in the form of tax-free dividends.

Your Board remains committed to achieving the objective of a constant dividend stream and following the 4.0 pence per share of dividends paid this year, it is pleased to propose a final dividend of 2.0 pence per share. If approved, the dividend will be paid on 10 June 2011 to shareholders on the register as at 13 May 2011.

Shareholder Relations and Fundraising

The Company is seeking to increase its investment capacity through a linked offer together with British Smaller Companies VCT plc. On 8 December 2010 your Board published proposals offering investors the opportunity to subscribe for up to 12,811,388 new Ordinary shares in the Company at an offer price of 70.25 pence per share. These proposals are by way of two offers closing on 5 April 2011 and 4 May 2011 respectively. An initial allotment of £2,567,989 for 3,655,500 new Ordinary shares was made on 22 March 2011. The additional investment capacity will enable the Company to take advantage of additional attractive investment opportunities that are expected to arise over the coming years.

At a shareholder meeting on 18 October 2010 shareholders voted in favour of re-introducing a buy back policy and the rate of discount to net asset value at which shares are bought back has been set at no more than 15%. Since then the Company has bought back 566,100 Ordinary shares at an average price of 57.04 pence per share representing 3.2% of the issued share capital. These shares have been placed in treasury.

Your Board remains committed to enhancing Shareholder communications and continues to run Shareholder workshops where investors are invited to meet members of the Board, representatives

from YFM Private Equity Limited, the Company's Fund Manager, and the CEO's of one or more of our investee companies. We were delighted to welcome over 150 shareholders to the most recent workshop held on 9 February 2011 at the British Museum.

The Annual General Meeting of the Company will be held at 12.00 noon on 16 May 2011 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 55.

Regulation

Your Board is pleased to note that the recent budget of 23 March 2011 included a number of positive developments which the Government intends to implement from April 2012. Venture Capital Trusts have had a positive influence and benefit on the flow of capital to the UK's smaller businesses and it is welcome that this is being recognised.

Board of Directors

I am pleased to welcome Mr Peter Waller to the Board, who was appointed to the Board in October 2010. Mr Waller has extensive executive experience in the technology, software and services sectors.

Mr Waller's appointment follows the resignation of Mr Philip Cammerman in September 2010. I should again like to thank Mr Cammerman, both personally and on behalf of the Company and its Shareholders, for the significant contribution he has made since the Company's inception.

This year's changes to the Board's composition have been in response to the new Listing Rules with regard to the independence of directors.

Outlook

There are early signs of improving economic conditions but recent challenges are expected to continue for several months. The portfolio remains well funded with many businesses taking the opportunity to improve efficiency or change their strategy to maximise the new market opportunities they now see. This Company is well placed to continue to support our existing portfolio companies and take advantage of investment opportunities that may arise in the short term.

The Board remains of the opinion that the upcoming period is likely to present a number of good investment opportunities, both for the existing portfolio businesses and for new investments. It was with this in mind that we increased the investment capacity of the Company during the year and the Board will continue to consider the opportunity for further fund raising offers in the future.



Richard Last
Chairman
31 March 2011

Fund Manager's Review

Portfolio valuation at 31 December 2010 and full history of realisations up to 31 December 2010

Name of Company	Date of Initial Investment	Location	Industry Sector	Current Cost*	Realised Proceeds to Date	Investment Valuation at at 31 December 2010	Realised and Unrealised to Date
				£000	£000	£000	£000

Current Investments

Digital Healthcare Limited	Jun-05	Cambridge	Medical Instruments	3,072	–	1,142	1,142
Primal Pictures Limited	Dec-05	London	Medical Instruments	897	205	1,056	1,261
Immunobiology Limited	Jun-03	Cambridge	Pharmaceuticals	1,032	–	1,002	1,002
Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	–	500	500
Waterfall Services Limited	Feb-07	Warrington	Healthcare	250	–	474	474
Harvey Jones Limited	May-07	London	Consumer Retail	389	–	395	395
Deep-Secure Ltd	Dec-09	Reading	Software	500	–	393	393
Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	300	–	370	370
Patsystems plc	Sep-07	London	Software	317	–	293	293
Brady plc	Dec-10	Cambridge	Metals and Commodities	239	–	271	271
Sirigen Limited	Oct-10	Hampshire	Medical Technology	267	–	267	267
RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	210	165	221	386
Optos plc	Dec-05	Dunfermline	Medical Instruments	115	93	195	288
Tissuemed Limited	Dec-05	Leeds	Consumer Retail	48	–	120	120
Cambridge Cognition Limited	May-02	Cambridge	Software	240	–	82	82
Brulines plc	Oct-06	Stockton-on-Tees	Electronics	81	–	69	69
Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	317	–	52	52
Allergy Therapeutics plc	Oct-04	Worthing	Biotechnology	350	–	37	37
Silistix Limited	Dec-03	Manchester	Electronics	1,364	–	–	–
Solcom Limited	Dec-05	Ryde	Software	–	–	–	–
Oxis Energy Limited	Dec-05	Abingdon	Electronics	5	–	–	–
Intelligent Recordings Limited	Sep-08	Nottingham	Electronics	–	–	–	–
				10,493	463	6,939	7,402
Full realisations to date				7,872	13,993	–	13,993
Total				18,365	14,456	6,939	21,395

Fund Manager's Review

Portfolio valuation at 31 December 2010 and full history of realisations up to 31 December 2010 (continued)

Name of Company	Date of Initial Investment	Location	Industry Sector	Original Cost*	Realised Proceeds to Date	Investment Valuation at 31 December 2010	Realised to Date	Realised Profit (loss)
				£000	£000	£000	£000	£000
Realised Investments								
DxS Limited	Apr-04	Manchester	Healthcare	163	2,266	–	2,266	2,103
Sarian Systems Limited	Dec-05	Ilkley	Telecoms	928	2,605	–	2,605	1,677
Amino Technologies plc	Sep-01	Cambridge	Electronics	415	1,875	–	1,875	1,460
Cozart plc	Jul-04	Abingdon	Healthcare	1,566	2,983	–	2,983	1,417
Vibration Technology Limited	Mar-02	Glasgow	Industrial	1,061	2,328	–	2,328	1,267
The ART Technology Group Inc	Apr-03	Washington, USA	Software	275	638	–	638	363
Tamesis Limited	Jul-01	London	Software	150	317	–	317	167
Voxar	Dec-05	Edinburgh	Software	–	134	–	134	134
Tekton Group Limited	Dec-05	Manchester	Software	100	223	–	223	123
Arakis Limited	Mar-04	Essex	Healthcare	14	108	–	108	94
Hallco 1390 Ltd	Dec-06	Manchester	Software	1	77	–	77	76
Oxonica plc	May-02	Oxford	Chemical	241	258	–	258	17
SoseiCo Ltd	Aug-05	Toyko, Japan	Healthcare	158	94	–	94	(64)
Sirus Pharmaceuticals Ltd	Sep-01	Cambridge	Healthcare	270	14	–	14	(256)
Infinite Data Storage Limited**	Mar-02	Dunfermline	Software	425	–	–	–	(425)
Purely Proteins Limited	Nov-03	Cambridge	Software	438	–	–	–	(438)
ExpressOn Biosystems Limited**	Oct-02	Midlothian	Healthcare	450	–	–	–	(450)
Broadreach Networks Limited**	Feb-03	London	Telecoms	550	17	–	17	(533)
Comvurgent Limited**	Dec-05	Nottingham	Software	611	–	–	–	(611)
Hallco 1389 Ltd	Dec-06	Manchester	Software	49	49	–	49	–
Focus Solutions Group plc	Dec-05	Leamington Spa	Software	7	7	–	7	–
Total				7,872	13,993	–	13,993	6,121

* Original or acquired cost where the investment was acquired at the fair value ascribed to it at the time of the acquisition of British Smaller Technology Companies VCT plc.

** In Receivership

Fund Manager's Review

Investment Portfolios

This section describes the business of the active companies in the portfolio, in order of valuation at 31 December 2010 as detailed on page 8. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed:

Digital Healthcare Limited

Cambridge

www.digital-healthcare.co.uk

Cost:	£3,072,000
Valuation:	£1,142,000
Dates of Investment:	June & December 2005, July 2007, October & November 2008
Equity held:	25.04%
Valuation basis:	Price of recent investment, reviewed for impairment

Year ended	2009	2008
30 September	£million	£million
Sales	3.20	2.87
Loss before tax	(0.38)	(1.71)
Retained losses	(2.77)	(5.36)
Net assets	4.92	0.13

Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric markets. It has developed its UK business becoming the leading supplier of diabetic retinopathy screening software to the NHS.

Primal Pictures Limited

London

www.primalpictures.com

Cost:	£897,000
Valuation:	£1,056,000
Date of Investment:	December 2005
Equity held:	17.18%
Valuation basis:	Earnings multiple

Year ended	2009	2008
31 December	£million	£million
Sales	3.22	2.54
Profit before tax	0.31	0.30
Retained losses	(4.44)	(4.76)
Net liabilities	(1.05)	(1.38)

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at medical students and health care professionals. Images derived from X-ray, magnetic resonance and other scan data have enabled the production of a completely authentic anatomical model of the human body. The company has developed recurring licence revenues from reseller partners, and is now seeking to establish itself as a supplier of educational products.

Immunobiology Limited

Cambridge

www.immbio.com

Cost:	£1,032,000
Valuation:	£1,002,000
Dates of Investment:	June & December 2003, November & December 2005, August 2007, and March 2010
Equity held:	12.22%
Valuation basis:	Price of recent investment, reviewed for impairment

Year ended	2010	2009
31 May	£million	£million
Sales	0.07	0.08
Loss before tax	(1.36)	(1.22)
Retained losses	(6.05)	(4.89)
Net liabilities	(1.03)	(0.68)

Immunobiology is developing new methods of producing high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and hepatitis. Progress is being made in partnership with various healthcare institutions and universities to prove the advantages of this new technology and gain regulatory clearances to begin human trials.

Fund Manager's Review

Bluebell Telecom Group Limited

Newcastle upon Tyne
www.bluebelltelecom.com

Cost:	£500,000	
Valuation:	£500,000	
Date of Investment:	September 2010	
Equity held:	6.75%	
Valuation basis:	Price of recent investment, reviewed for impairment	
Interest:	£10,765 (2009: nil)	
5 months ended 30 April 2010 and the year ended 30 September 2009	2010 £million	2009 £million
Sales	-	0.01
Loss before tax	(0.02)	(0.02)
Retained losses	(0.04)	(0.02)
Net assets	3.96	1.98

Bluebell is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The company's investments were made to assist with the next phase of Bluebell's growth. The business anticipates further acquisition activity.

The financial information relates to the results of the non-trading entity that was used to acquire Bluebell Telecom Group.

Waterfall Services Limited

Warrington
www.caterplus.co.uk

Cost:	£250,000	
Valuation:	£474,000	
Dates of Investment:	February 2007 & June 2008	
Equity held:	4.61%	
Valuation basis:	Earnings multiple	
Dividends received:	£5,883 (2009: £8,750)	
Interest:	£13,315 (2009: £13,315)	
Year ended 31 March	2010 £million	2009 £million
Sales	36.33	28.41
Profit before tax	0.85	0.44
Retained profits	0.83	0.33
Net assets	1.59	1.10

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

Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost:	£389,000	
Valuation:	£395,000	
Date of Investment:	May 2007	
Equity held:	3.44%	
Valuation basis:	Earnings multiple	
Interest:	£34,971 (2009: £34,971)	
Year ended 31 December	2009 £million	2008 £million
Sales	8.63	9.59
(Loss) profit before tax	(0.37)	0.20
Retained profits	-	0.33
Net assets	0.53	0.89

Harvey Jones is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped Harvey Jones to retain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to 17 from 10 at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit as market conditions improve.

Fund Manager's Review

Deep-Secure Ltd

Worcestershire
www.deep-secure.com

Cost: £500,000
Valuation: £393,000
Date of Investment: December 2009
Equity held: 6.43%
Valuation basis: Earnings multiple
Interest: £27,000 (2009:£1,627)

The first set of audited financial statements for Deep-Secure Ltd is not yet due.

Deep-Secure's market leading products protect against threats to IT security via high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack demands more businesses rely on higher levels of security to protect their data. The main customers are in the government and defence sectors where tight security is essential.

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost: £300,000
Valuation: £370,000
Dates of Investment: June 2007 & May 2008
Equity held: 1.77%
Valuation basis: Quoted bid price
Dividends received: £13,606 (2008: £12,406)

Year ended	2010	2009
3 October	£million	£million
Sales	21.71	26.19
Profit before tax	3.51	5.05
Retained profits	10.00	8.21
Net assets	15.91	14.11

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

Patsystems plc

London
www.patsystems.com

Cost: £317,000
Valuation: £293,000
Dates of Investment: September 2007 & March 2008
Equity held: 0.63%
Valuation basis: Quoted bid price
Dividends received: £5,630 (2009: £4,480)

Year ended	2009	2008
31 December	£million	£million
Sales	22.10	19.63
Profit before tax	4.49	2.07
Retained losses	(3.70)	(6.47)
Net assets	23.51	20.05

The holding in **Patsystems** has arisen as a result of deferred consideration payable in shares on the acquisition of Tamesis in August 2005. Patsystems is listed on AIM and develops trading and risk management systems for derivatives traders. It sells its products to all major financial services and has delivered strong growth particularly with recent further contract wins in Asia.

Fund Manager's Review

Brady plc

Cambridge
www.bradyplc.com

Cost:	£229,000	
Valuation:	£271,000	
Date of Investment:	December 2010	
Equity held:	0.75%	
Valuation basis:	Quoted bid price	
Dividends received:	Nil (2009: nil)	
Year ended	2009	2008
31 December	£million	£million
Sales	8,185	6,167
Profit before tax	1,183	1,039
Retained earnings	2,740	1,896
Net assets	10,998	10,370

AIM-listed **Brady plc** develops and provides trading and risk management systems. In December 2010 it acquired Viz Risk Management, which is a leading supplier of trading and risk management software for energy markets. This is in addition to Brady's market leading position in software for trading metals and soft commodities.

Sirigen Limited

Hampshire
www.sirigen.com

Cost:	£267,000	
Valuation:	£267,000	
Date of Investment:	October 2010	
Equity held:	4.20%	
Valuation basis:	Quoted bid price	
Year ended	2009	2008
31 December	£million	£million
Sales	0.10	–
Loss before tax	(0.46)	(0.36)
Retained losses	(0.88)	(0.42)
Net liabilities	(0.88)	(0.42)

Sirigen produces reagents that improve the efficiency of analysis of the effectiveness of certain drugs. Sirigen's versatile HSF™ technology simplifies sample processing and instrumentation requirements in both immunodiagnostic and nucleic acid based applications, and facilitates high volume screening in theradiagnostics and other personal care applications.

RMS Group Holdings Limited

Goole
www.rms-europe.co.uk

Cost:	£210,000	
Valuation:	£221,000	
Dates of Investment:	July 2007 & June 2008	
Equity held:	3.29%	
Valuation basis:	Earnings multiple	
Interest:	£30,924 (2009: £38,484)	
Year ended	2009	2008
31 December	£million	£million
Sales	24.00	13.40
Profit before tax	0.71	0.10
Retained losses	(0.13)	(0.02)
Net assets	5.43	5.53

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

Fund Manager's Review

Optos plc

Dunfermline
www.optos.com

Cost:	£115,000	
Valuation:	£195,000	
Dates of Investment:	December 2005 & February 2007	
Equity held:	0.16%	
Valuation basis:	Quoted bid price	
Dividends received:	Nil (2009: nil)	
Year ended	2009	2009
30 September	\$million	\$million
Sales	106.30	97.16
Profit (loss) before tax	12.70	[3.82]
Retained losses	(45.50)	(59.96)
Net assets	75.00	58.66

Optos has developed a series of Scanning Laser Ophthalmoscopes used by optometrists for the early detection of eye problems such as age-related macular degeneration. Approximately 4,000 devices have been installed world-wide, mostly in North America, either on a capital sale or rental basis. Recent trading is in line with market expectations.

Tissuemed Limited

Leeds
www.tissuemed.com

Cost:	£48,000	
Valuation:	£120,000	
Dates of Investment:	December 2005 & March 2007	
Equity held:	1.63%	
Valuation basis:	Price of recent investment, reviewed for impairment	
Year ended	2010	2009
31 March	£million	£million
Retained losses	(15.99)	(15.40)
Net assets	0.65	1.24
Tissuemed Limited has a small company exemption from filing full audited financial statements at Companies House.		

Tissuemed is a medical device company specialising in advanced surgical biomaterials designed to save surgeons' time and to improve the treatment and recovery of patients. In April 2010 (post accounting period) the company secured investment and a pan-European distribution agreement from a US listed medical devices company.

Fund Manager's Review

Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost:	£240,000	
Valuation:	£82,000	
Date of Investment:	May 2002	
Equity held:	2.85%	
Valuation basis:	Price of recent investment, reviewed for impairment and supported third party investment	
Year ended	2009	2008
31 December	£million	£million
Sales	3.31	2.14
Loss before tax	(0.52)	(1.09)
Retained losses	(6.91)	(6.39)
Net liabilities	(0.28)	(0.28)

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental conditions. It received funding from a range of investors to assist with commercialising its intellectual property. The company has restructured and trading is much improved in recent months.

Brulines plc

Stockton-on-Tees
www.brulines.com

Cost:	£81,000	
Valuation:	£69,000	
Date of Investment:	October 2006	
Equity held:	0.24%	
Valuation basis:	Quoted bid price	
Dividends received:	£2,554 (2009: £3,531)	
Year ended	2010	2009
31 March	£million	£million
Sales	19.83	19.07
Profit before tax	4.04	4.62
Retained profits	7.64	6.50
Net assets	21.04	20.06

Brulines is the leading provider of monitoring dispense protection systems for draught alcoholic drinks for the UK licensed on-trade. Brulines has consolidated its market leading position and continues to seek to expand its service and product offering. Dividend yield remains strong but the pub chains continue to struggle. Diversifying into related markets, such as petrol forecourts, has been an increasing focus.

Fund Manager's Review

Ellfin Home Care Limited

Oldham

Cost:	£317,000	
Valuation:	£52,000	
Dates of Investment:	December 2007, October 2008 and June 2010	
Equity held:	6.17%	
Valuation basis:	Earnings multiple	
Dividends received:	Nil (2009: £858)	
Interest:	Nil (2009: £22,772)	
12 months ended	2009	2008
31 October 2009	£million	£million
(2008: 11 months ended 31 October 2008)		
Sales	4.36	3.06
(Loss) profit before tax	(0.02)	0.16
Retained losses	(0.09)	(0.01)
Net assets	0.48	0.56

Ellfin Home Care is a domiciliary care business providing care in the home services to both public and private clients. The company was established as a vehicle to acquire a number of home care businesses forming a north west group over a five year period. To date two acquisitions have been completed.

Allergy Therapeutics plc

Worthing

www.allergytherapeutics.com

Cost:	£350,000	
Valuation:	£37,000	
Dates of Investment:	October 2004, April 2005, February 2007, September 2010, October 2010 and December 2010	
Equity held:	0.15%	
Valuation basis:	Quoted bid price	
Dividends received:	Nil (2009: nil)	
Year ended	2010	2009
30 June	£million	£million
Sales	40.75	37.76
Loss before tax	(0.12)	(11.44)
Retained losses	(97.98)	(97.02)
Net assets (liabilities)	3.89	(23.18)

Allergy Therapeutics specialises in the treatment and prevention of allergies. Whilst good progress has been made in expanding sales, growth has been inhibited until such time as FDA approval is gained for the key product.

Fund Manager's Review

Introduction

This year has again seen the continuation of realisations at values in excess of the carrying value although we have not seen any significant exits as in recent years. The Company has continued to benefit from the sale of DxS to Qiagen in 2009 with £298,000 of deferred proceeds received in this period and a further £259,000 expected in the future. Significant proceeds were also received following the recapitalisation of RMS (£189,000 proceeds) on the back of an improving profit performance and Primal Pictures (£205,000 proceeds) where surplus cash was used to redeem some of the institutional preference shares.

There have been significant positive developments within a number of the businesses in the portfolio in spite of a continuation of the challenging market conditions. Primal Pictures has now completed the development of its principal educational product, a major step in repositioning the business as a provider of education services rather than a reference source. Immunobiology has begun engagement with the major pharmaceuticals as it progresses its innovative vaccine technology towards human trials. Cambridge Cognition has finally proven the commercial application of its diagnostic software. Although Digital Healthcare has struggled to roll out its Retasure™ product to the US market there are now encouraging signs that changes to the UK market could strengthen the company's strategic presence in the UK. Several other portfolio businesses have seen improving profits against a backdrop of gradually improving economic conditions, including RMS, Harvey Jones and Waterfall Services. Cash and gilt investments at 31 December 2010 were £4.49 million representing 38.0% of net assets. This compares to £5.69 million (47% of net assets) at 31 December 2009. The Company remains in a strong cash position enabling further investment in selective opportunities and dividends in 2011.

Portfolio Overview

Portfolio Performance

Overall, the quoted and unquoted portfolio increased by £0.78 million to a total of £6.94 million from £6.16 million. Netting off the new investment of £1,358,000 and realisation of £350,000 of opening December 2009 value, the net portfolio value movement over the year was a fall of £224,000. This breaks down into a fall in the value of the unquoted portfolio of £233,000 and a gain in the value of the quoted portfolio of £9,000. The realised value related to the partial redemption of preference shares from Primal Pictures and recapitalisation of RMS, the latter generating an uplift over the December valuation of £44,000. Overall the portfolio remains well funded and positioned for value growth as economic conditions improve and current strategies are implemented to capitalise on the changing market conditions.

	Quoted and unquoted portfolio £000	Deferred proceeds £000	Total £000
Opening value	6,155	214	6,369
Additions	1,358		1,358
Valuation changes			
– Unquoted	(233)		(233)
– Quoted	9		9
Proceeds	(394)	(301)	(695)
Profit on disposal	44	346	390
31 December 2010	6,939	259	7,198

A further £301,000 of cash proceeds was generated mainly from deferred consideration payments relating to the sale of DxS to Qiagen which completed in the previous reporting period. These payments together with a further £259,000 of value assumed from DxS in the future represented a profit of £346,000 over the December 2009 valuation (shown within trade and other receivables).

Including the deferred proceeds the effective net movement in the opening December 2009 value of the Company's portfolio was an increase of £166,000. This can be broken down as follows:-

	£000 2010	%
Unquoted	(233)	(3.8)
Quoted	9	0.2
Realised profit	44	0.7
Deferred proceeds	346	5.6
Total Value Movement	166	2.7

Whilst this year has undoubtedly produced a number of challenges, the unquoted portfolio as a whole has generally proved resilient with 9 out of the 14 investments showing an uplifting in value. Nonetheless it is disappointing that strong positive progress across many businesses was offset by significant value falls in two investments, Digital Healthcare and Silistix. Excluding the effect of these two investments the remaining unquoted portfolio value grew by £700,000 over the period. The Digital Healthcare valuation was reduced (down £517,000) in recognition of underperformance of its US strategy but significant steps have been made in the UK. Silistix (down £460,000) unfortunately failed to attract a trade buyer for its software used in the design of next generation electronic processors and the value has now been written down to zero although there remains a possibility that some value can still be recovered.

Fund Manager's Review

The quoted portfolio saw a small value growth overall in improving market conditions.

In accordance with the new requirements of IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. The sensitivity performed indicated that a 10% decrease in the discounts applied to earnings multiples would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £262,000, with an equal change in the opposite direction causing a decrease by the same amount. Similarly a 10% decrease in the discounts applied to last round valuations would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £262,000, with an equal change in the opposite direction causing a decrease of £272,000. Further information is given in note 19a.

Investment Activity

During the year new investments were made in three businesses. In September 2010, £500,000 was invested, alongside British Smaller Companies VCT plc, into Bluebell Telecom Group Limited to help fund the acquisition of Call Stream Limited. Bluebell is a telecommunications service provider to UK businesses seeking to grow its aggregated service offering through a series of targeted acquisitions. In October 2010 the Company invested £267,000 into Sirigen Limited, as part of a £3.0 million funding round, with a further £133,000 tranche also committed based on development milestones. Sirigen has developed a fluorescent labelling technology to dramatically increase the sensitivity of diagnostic tests and is now seeking to generate significant revenues via product royalties. In December 2010 the Company invested £239,000 into AIM-listed Brady plc, a provider of risk management solutions to commodities traders, as part of an £11 million funding package to acquire a Norwegian-based competitor.

The Company also made three further investments into the unquoted portfolio totalling £353,000. £182,000 was invested in Immunobiology as part of a £1.7 million funding round from the existing investor syndicate to complete the pre-clinical development work and discussions with licence partners. An investment of £150,000 was made into Silistix as part of a £635,000 round from existing investors to try to build trade partnerships ahead of a sale process. A further investment of £21,000 was also made into Ellfin Home Care as part of a £250,000 working capital round following management changes.

The Company's investment policy is to build a diversified portfolio of investments in emerging businesses combined with later stage businesses that have the potential to deliver both income and capital growth. Investment levels, though higher than in 2009, have remained below historic levels but are expected to gradually grow over the coming months. We will continue to invest into the portfolio to fund value growth and support commercialisation of technology.

Realisations

There were no significant realisations over the period with market conditions being appropriate to maximise value in most sectors. £205,000 was realised from Primal Pictures through the partial buyback of preference shares using surplus cash, a result of recent profits. £189,000 was received following the recapitalisation of RMS, again a result of improving profitability.

Deferred consideration amounting to £298,000 was received during the year with the residual deferred payments due still being valued at £259,000 as a non-current asset on the Balance Sheet at the year end. In addition, the Company received final proceeds of £3,000 following the full disposal of Tekton in 2008.

Performance History

The chart in the Financial Summary on page 4 shows how the total return of the Company, calculated by reference to the net asset value per share plus cumulative dividends paid per share has developed over the years since inception.

Conclusion and Outlook

The year under review has seen a continuation of previous challenging market conditions although there were encouraging signs of a gradual improvement towards the end of the year. We have continued to support the investee companies through these challenges and with limited exceptions have seen a general improvement in performance and valuations across the portfolio. With a gradually increasing investment rate and limited disposals cash reserves remain strong and will be boosted with the funds raised from the linked fund raising with British Smaller Companies VCT plc (further details of which are set out in the Chairman's Statement) which leaves the Company well placed to continue dividends and take advantage of good investment opportunities.

We are optimistic that 2011 will see a continuation of the gradually improving market conditions for the portfolio as well as seeing an increase in businesses seeking investment which should create good new investment opportunities for the Company.

David Hall

YFM Private Equity Limited

31 March 2011

Valuation of Investments

Subsequent Measurement

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

Unquoted Investments

- **Price of recent investment, reviewed for impairment.** 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 reduction to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.
- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.
- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.
- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounting by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.
- **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.
- **Industry valuation benchmarks.** Where appropriate comparator companies can be identified multiples of revenues may be used as a valuation benchmark.

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

Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. Where the Company judges that the level of trading does not meet these requirements an illiquidity discount is applied.

Directors

Name	Responsibilities
Richard Last Chairman (53)	Richard Last is a Fellow of the Institute of Chartered Accountants in England and Wales with substantial experience in the IT software and services sectors, and is Chairman and non-executive Director of Patsystems plc and Arcontech Group plc (both financial software businesses listed on AIM). He is also a Non Executive Director of Lighthouse Group plc and of Corero Group plc, both AIM listed. In addition he is also a Director and shareholder of a number of private companies including the IT company APD Communications Limited. He is Non Executive Chairman of CSE Global UK Limited, a subsidiary of a Singapore Stock Exchange listed company and is the Non Executive Chairman of Parseq Group Plc, an AIM listed IT and services company.
Robert Martin Pettigrew (66)	Robert has more than 20 years experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Sagentia) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is an investor-director on the Boards of a number of technology companies, including Sphere Medical Limited, Timberpost Limited, Xeros Ltd and Acal Energy Limited (of which he is Chairman).
Peter Waller (64)	Peter is an experienced chairman and director with extensive UK and international executive experience in the technology, software and services sector. He initially worked with IBM and Hitachi then with Spring plc, at that time one of the UK's largest recruitment and training businesses. He is currently Chairman of Rocela Ltd, KeyPoint Technologies Limited and Premier Veterinary Group Ltd. For the past decade Peter has worked as a board member with a succession of early stage and early growth private and public companies. His particular skills are in sales and marketing and working with companies to develop successful sales growth strategies.

Secretary and Registered Office

James Ernest Peter Gervasio LL.B.

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

Registered No: 4084003

Directors' Report

For the year to 31 December 2010

The directors present their report and audited accounts of British Smaller Companies VCT2 plc ("the Company") which changed its name on 22 October 2010 from British Smaller Technology Companies VCT 2 plc, for the year ended 31 December 2010.

Principal Activity

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

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

The Company operates as a venture capital trust and has been approved by HM Revenue & Customs as an authorised venture capital trust under Section 274 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 Section 274 of the Income Tax Act 2007.

Business Review

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

Principal Risks, Risk Management and Regulatory Environment.

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

Investment and Strategic – quality of enquiries, investments, investee company management teams and monitoring, the risk of not identifying investee under performance might lead to under performance and poor returns to Shareholders.

Loss of Approval as a Venture Capital Trust – the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period having to repay their 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. As such one of the key performance indicators monitored by the Company is the compliance with legislative tests. See below for more detail.

Regulatory – the Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority, International Financial Reporting Standards and the Statement of Recommended Practice. Breach of any of these regulatory rules might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

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

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

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

Market Risk – lack of liquidity in both the venture capital and public markets. Investment in AIM-traded and unquoted companies, by their nature, involve a higher degree of risk than investment in companies 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. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

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

The Board seeks to mitigate the internal risks by setting policy, regular review of performance and monitoring progress and compliance. The key performance indicators measure the Company's performance and its compliance with legislative tests. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in *Financial Reporting Council – Revised Internal Control: Guidance for Directors on the Combined Code*. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on page 27.

Directors' Report

Key Performance Indicators

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

Total Return

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

The chart showing the total return of your Company is included within the Financial Summary on page 4.

The evaluation of comparative success of the Company's total return is by way of reference to the net cost of investment for the founder eligible Shareholder which was 80 pence per share (net of 20% basic tax relief) and by comparison to the FTSE™ techMARK™ All-Share Index over that same period. A comparison of this return is shown in the Directors' Remuneration Report.

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. Under Section 274 of the Income Tax Act 2007, in addition to the requirement for a VCT's ordinary capital to be listed in the Official List on the London Stock Exchange throughout the period, there are a further five specific tests that VCTs must meet following the initial three year provisional period.

Income Test

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

Retained Income Test

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

Qualifying Holdings Test

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

Eligible Shares Test

At least 30% of the Company's qualifying holdings must be represented throughout the period by holdings of non-preferential ordinary shares.

Maximum Single Investment Test

The value of any one investment has, at any time in the period, not represented more than 15% of the Company's total investment value. This is calculated at the time of investment and further additions and therefore cannot be breached passively.

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

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

Results and Dividends

The Statement of Comprehensive Income is set out on page 33.

The loss before and after taxation for the year amounted to £103,000 (2009: £310,000 profit).

The revenue return for the year amounted to £10,000 (2009: £70,000). The capital loss for the year amounted to £113,000 (2009: £240,000 profit).

The directors recommend the payment of a final dividend of 2.0 pence (2009: 2.0 pence). A resolution to this effect will be proposed at the Annual General Meeting to be held on 16 May 2011.

The net asset value per Ordinary share at 31 December 2010 was 68.4 pence (2009: 72.7 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 35.

Share Capital

As shown in note 11, the Company has only one class of Ordinary shares.

Issue and Buy-Back of Shares

At a Shareholder meeting on 18 October 2010, the Shareholders voted in favour of re-introducing a buy back policy and the rate of discount to net asset value at which the Company's shares are bought back has been set at no more than 15%. Since then the Company has bought back 300,000 and 266,100 Ordinary shares at a price of 57.75 and 56.25 pence per share respectively. These shares are held in treasury. A resolution to renew this authority will be proposed at the Annual General Meeting.

Date	Number of Ordinary shares of 10p bought-back	% of Issued share capital	Consideration paid per share
3 Nov 2010	300,000	1.68%	57.75p
10 Dec 2010	266,100	1.52%	56.25p

On 5 April 2010, the Company issued 953,798 Ordinary shares at a price of 77.25 pence per share, and on 30 April 2010 issued 242,464 Ordinary shares at 77.25 pence per share. On 18 November 2010 the Company issued 7,277 Ordinary shares at 70.25 pence per share.

Directors' Report

Capital Disclosures

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

- the Company's capital structure is summarised in note 11. 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. Details of the performance-related incentive scheme with The YFM Private Equity Limited Trust is given in the Directors' Remuneration Report;
- the rules concerning the appointment and replacement of Directors, amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- there are no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Trade Payables Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms. Although the Company has no trade payables at the year end, the average number of trade payable days during the year was 17 (2009: 20).

Fund Manager

The Board is considering a European Union directive concerning hedge fund and private equity fund managers which was approved by the European Parliament in November 2010. Further secondary legislation is to be introduced over a two year transition period and insofar as the proposals affect the Company the directors will report further once the full impact of the directive becomes clear.

Environment

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment. The management and administration of the Company is undertaken by the Fund Manager. YFM Private Equity Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment, and implements policies to reduce any damage that might be caused by its activities. Initiatives designed to minimise the

Company's impact on the environment include recycling and reducing energy consumption. Given the size and nature of the Company's activities and the fact that it has no employees, the Board considers there is limited scope to develop and implement social and community policies.

Directors and their Interests

The directors of the Company at 31 December 2010, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 30 to 31.

Substantial Shareholdings

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

Independent Auditors

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

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 55 and 56 of these financial statements.

The Ordinary business of the meeting includes a resolution to appoint, as the Company's registered auditors, Grant Thornton UK LLP.

As Special business a special resolution is proposed with regard to the Company's dividend reinvestment scheme so as to renew the waiver of pre-emption rights in respect of shares to be allotted under the dividend reinvestment scheme pursuant to the authority to allot granted by the Shareholders at the General Meeting held on 11 January 2011.

In addition a Special resolution will be proposed so as to authorise the Board to continue a share buy-back policy, the purpose of which will be to provide Shareholders with an increased measure of liquidity. Under this policy the Company will make market purchases of its own shares up to a maximum number of shares equivalent to 14.99% of total Ordinary shares in issue as at 31 December 2010. Subject to Shareholder approval, the Board intends to operate a policy of purchasing shares that become available in the market at a price equivalent to the Company's most recently published net asset value less a discount of 15%. Under the Listing Rules the minimum price that the Company may pay for each share is 10 pence, its nominal value, and the maximum price is an amount not more than 5% above the average middle market price of the Ordinary shares taken from the Official List of the UK Listing Authority for the five business days immediately preceding the day on which the shares are contracted to be purchased. Shares purchased in this way will be taken into treasury.

Directors' Report

VCT Status Monitoring

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

Events After the Balance Sheet Date

On 11 January 2011 at a General Meeting the Shareholders approved various resolutions in connection with a proposed allotment of Ordinary shares up to an aggregate nominal amount of £900,000; to approve the introduction of a dividend reinvestment scheme and to amend the Articles of Association with regard to the duration of the Company.

On 8 December 2010, the Board published proposals offering investors the opportunity to subscribe for up to 12,811,388 new Ordinary shares in the Company at an offer price of 70.25 pence per share. These proposals were by way of two offers closing on 5 April 2011 and 29 April 2011 respectively. The closing date for the offer in relation to the tax year 2011/2012 was subsequently extended to 4 May 2011. Pursuant to the offers an initial allotment of £2,567,989 for 3,655,500 Ordinary shares was made on 22 March 2011.

Statement of Directors' Responsibilities

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

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

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

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

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

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

The directors confirm, to the best of their knowledge:

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

Directors' Report

Statement of Corporate Governance

The Board is committed to the principle and application of sound Corporate Governance and confirms that the Company has taken appropriate steps, relevant to its size and operational complexity, to comply with The Combined Code on Corporate Governance, June 2008 (the "Combined Code").

The Board has complied throughout the year, and up to the date of this report, with Section 1 of the Combined Code, except for those provisions relating to the appointment of a recognised senior independent non-executive director and those relating to the establishment of an independent Remuneration Committee, the Chairman acting as chairman of the Audit Committee, and the presumption concerning his independence (see page 26).

Role of the Board

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

The Board meets at least quarterly and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow 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, all of whom are regarded by the Board as independent and also as independent of the Company's Fund Manager, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although the Combined Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in the Company are satisfied that Richard Last fulfils the criteria for independence as a non-executive director. The directors have a breadth of investment, business and

financial skills and relevant experience to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 20.

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

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

The Board considered the implications of new Listing Rules concerning the directors' independence which took effect in September 2010.

To ensure compliance with these rules Mr Philip Cammerman resigned as a director on 22 September 2010. Mr Peter Waller was appointed a non-executive director of the Company on 1 October 2010 in his place.

Tenure

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

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

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

The Board recommends the election of Mr P Waller and the re-election of Mr R M Pettigrew, and Mr R Last (both of whom retire by virtue of service for more than nine years) at this year's AGM, because of their commitment, experience and continued contribution to the Company.

Directors' Report

Meetings and Committees

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

The table below details the number of Board, Audit, Nominations and Allotment Committee meetings attended by each director.

During the year there were seven formal Board meetings, two Audit Committee meetings, three Allotment Committee meetings and one Nominations Committee meeting. The directors met via telephone conferences on eight other occasions.

Director	R Last	P C Waller (appointed 1.10.10)	R M Pettigrew	P S Cammerman (resigned 22.9.10)
Telephone conference	8	1	7	5
Board meetings attended	7	1	7	4
Audit Committee meetings attended	2	2	–	2
Nominations Committee meetings attended	1	–	1	–
Allotment Committee meetings attended	3	1	1	1

Training and Appraisal

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

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

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

The Chairman has confirmed that the performance of the directors being proposed for re-election continues to be effective and that they continue to show commitment to the role. The independent directors

have similarly appraised the performance of the Chairman, taking account of the views of the directors. They considered that the performance of Mr Richard Last continues to be effective and that he continues to demonstrate a commitment to the role.

Remuneration Committee

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

Audit Committee

The Audit Committee consists of R Last, R M Pettigrew and P C Waller and meets at least twice each year. The directors consider that it is appropriate that the Chairman of the Committee should be Richard Last. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee.

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

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

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

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

Nominations Committee

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

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

Directors' Report

Allotment Committee

With regards to the allotment of new issues of shares, the Board generally operates through a Committee of any two directors which meets as and when required to formally approve the allotment of shares.

Relations with Shareholders

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

All Shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Fund Manager are available in person to meet with and answer Shareholders' questions. In addition representatives of the Fund Manager periodically hold Shareholder workshops which review the Company's performance and industry developments. During the year the Company's broker and the Fund Manager have held regular discussions with Shareholders. The directors are made fully aware of their views. The Chairman and directors make themselves available as and when required to address Shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 20.

The Company's Annual Report is published in time to give Shareholders at least 21 clear days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 20. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against each resolution.

Internal Control

Under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005, the executive functions of the Company have been subcontracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- A clearly defined investment strategy for YFM Private Equity Limited, the Fund Manager to the Company;
- All decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Fund Manager;
- Regular reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure;
- Regular reviews of compliance with the venture capital trust regulations to retain status;

- The Audit Committee reviews the internal control procedures adopted by the Fund Manager and the Board approves annual budgets prepared by the Fund Manager; and
- The Board receives copies of the Company's management accounts on a regular basis showing comparisons with budget. These include a report by the Fund Manager with a review of performance. Additional information is supplied on request.

The Board confirms the procedures to implement the guidance, Financial Reporting Council - Revised Internal Control: Guidance for Directors on the Combined Code ("the Guidance"), were in place throughout the year ended 31 December 2010 and up to the date of this report.

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

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

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

Corporate Governance and Voting Policy

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

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

Directors' Report

Going Concern

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

The Company has considerable financial resources, a carefully controlled cost base and investments across various industry sectors. The directors believe these factors have placed the Company in a strong position to take advantage of new investment opportunities despite the uncertain economic outlook and thus are seeking to increase investment capacity through further fundraising in the coming months.

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.

Investment Policy

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

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

The Company funds its investment programme out of its own resources and has no borrowing facilities for this purpose. The maximum that the Company may invest in any holding in any tax year is limited to £1 million and the average size of the Company's qualifying investment is £513,000 (2009: £509,000). Typically the Company invests alongside other venture capital funds, such syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this annual report.

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

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

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

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

Prior to the investment of funds in suitable qualifying companies, the liquid assets of the Company are invested in a portfolio of Government stocks or other similar fixed interest securities. Reporting to YFM Private Equity Limited, the portfolio is managed by Brewin Dolphin Securities Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in an AAA rated liquidity fund, which invests in a pool of highly rated money market securities. Reporting to YFM Private Equity Limited, the fund is managed by Prime Rate Capital LLP. The Board receives regular reports on the diversity and return of the fund's portfolio. At the year end £nil was held in this fund and £491,000 was held in an interest bearing account with Royal Bank of Scotland plc.

Financial Instruments

Further information on financial instruments is provided in note 19 to the financial statements.

Directors' Report

Financial Assets

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

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

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

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

Details of financial assets held at 31 December 2010 can be found in the Fund Manager's Review and notes 7 and 19 to these financial statements.

This report was approved by the Board on 31 March 2011 and signed on its behalf by



Richard Last
Chairman

Directors' Remuneration Report

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

Directors and their Interests

The directors of the Company at 31 December 2010 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as follows:

	Number of Ordinary shares at	
	31 December 2010	31 December 2009
R Last	36,870	23,925
R M Pettigrew	37,524	37,524
P C Waller (appointed 1.10.10)	–	–

None of the directors have subscribed for further shares since the year end. None of the directors held any options to acquire additional shares at the end of the year.

The directors have committed to subscribe for the following shares under the linked fundraising with British Smaller Companies VCT plc (further details of which are set out in the Chairman's Statement).

	Number of Ordinary shares
R Last	7,177
R M Pettigrew	4,270
P C Waller (appointed 1.10.10)	7,177

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

The Company had no employees in either year.

Administration

YFM Private Equity Limited has acted as Fund Manager and performed administrative and secretarial duties for the Company since 28 November 2000. The principal terms of the agreement are set out in note 3 to the financial statements. YFM Private Equity Limited is authorised and regulated by the Financial Services Authority.

Under the Subscription Rights Agreement dated 28 November 2000, YFM Private Equity Limited and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary share exceeds 120 pence per Ordinary share on that same day multiplied by the number of Ordinary shares in issue and the shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity Limited and Generics Asset Management Limited as amended by an agreement between those parties dated 31 October 2005. No shares have been issued in 2010 or 2009 under this agreement. By a Deed of Assignment dated 19 December 2004 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity Limited subscription right was assigned to YFM Private Equity Limited Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Pursuant to the publication on 8 December 2010 of the Linked Offer Prospectus, arrangements will be put in place in order that the benefit of the subscription rights are extended to include all of the shares issued by the Company under the Offer.

Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £67,500 (2009: £67,500) all of which was paid to four (2009: three) individuals for services as directors and none of which was paid to third parties in respect of directors' services.

The total fees paid in respect of individual directors were as follows:

	2010 £	2009 £
R Last	31,500	31,500
R M Pettigrew	18,000	18,000
P S Cammerman (resigned 22.9.10)	13,500	18,000
P C Waller (appointed 1.10.10)	4,500	–
	67,500	67,500

There are no executive directors (2009: none).

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

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

Directors' Remuneration Report

Performance Graphs

The graphs opposite show a comparison between the Company's total Shareholder return compared with the companies in the FTSE™ techMARK™ All-Share Index from the date of flotation to 31 December 2010. The directors consider this to be the most appropriate published index on which to report on comparative performance given that the focus of the Company's investments are invariably in relatively early stage unquoted companies.

The first graph looks at the value, calculated by reference to the total return per Ordinary share and cumulative dividends paid (note 13) of £100 invested in the Company's shares, excluding tax relief received on this investment, with the value of £100 invested in the FTSE™ techMARK™ All-Share Index over the same period.

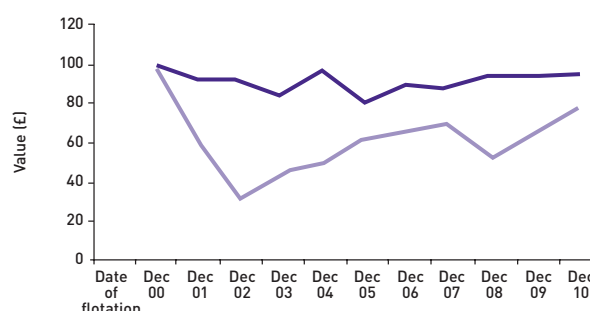
The second graph displays the share price return from the date of flotation to 31 December 2010 compared to the FTSE™ techMARK™ All-Share Index. It shows that at 31 December 2010 a hypothetical £100 invested in the Company at the time of its listing on the London Stock Exchange would have generated a total return of £69, which is compared with the £78 total return that would have been achieved if invested in FTSE™ techMARK™ All-Share Index. This assumes that at the time of flotation the tax relief given on the £100 investment was also invested in shares of the Company. Therefore this graph shows the share price return based on the initial investment of £100 purchasing 125 shares at £0.80 each, rather than 100 shares at £1.00 each.

This report was approved by the Board on 31 March 2011 and signed on its behalf.

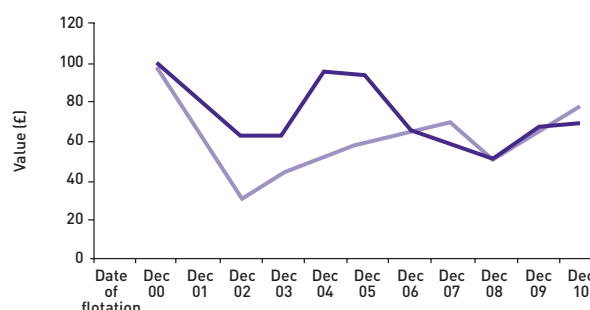


Richard Last
Chairman

Total Return per Ordinary Share



Share Price Return



— British Smaller Companies VCT2 plc
— FTSE™ techMARK™

Independent Auditor's Report

To the members of British Smaller Companies VCT2 plc (formerly British Smaller Technology Companies VCT 2 plc)

We have audited the financial statements of British Smaller Companies VCT2 plc (formerly British Smaller Technology Companies VCT 2 plc) for the year ended 31 December 2010, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 28, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on directors' remuneration.

Craig Burton

Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
31 March 2011

Statement of Comprehensive Income

For the year to 31 December 2010

	Notes	2010			2009		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on realisation of investments	7	–	370	370	–	1,793	1,793
Losses on investments held at fair value	7	–	(252)	(252)	–	(1,326)	(1,326)
Income	2	321	–	321	372	–	372
Administrative expenses:							
Fund Management fee		(77)	(231)	(308)	(79)	(238)	(317)
Other expenses		(234)	–	(234)	(212)	–	(212)
	3	(311)	(231)	(542)	(291)	(238)	(529)
Profit (loss) before taxation		10	(113)	(103)	81	229	310
Taxation	4	–	–	–	(11)	11	–
Profit (loss) for the year		10	(113)	(103)	70	240	310
Total comprehensive profit (loss) for the year		10	(113)	(103)	70	240	310
Basic and diluted earnings (loss) per Ordinary share	6	0.06p	(0.65)p	(0.59)p	0.42p	1.44p	1.86p

The accompanying notes on pages 37 to 54 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 ('IFRS'). The supplementary revenue and capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP') 2009 published by the Association of Investment Companies.

Balance Sheet

At 31 December 2010

	Notes	2010 £000	2009 £000
Assets			
Non-current assets			
Investments		6,939	6,155
Fixed income government securities		3,980	3,382
Financial assets at fair value through profit or loss	7	10,919	9,537
Trade and other receivables	8	259	214
		11,178	9,751
Current assets			
Trade and other receivables	8	193	192
Cash and cash equivalents	9	509	2,304
		702	2,496
Liabilities			
Current liabilities			
Trade and other payables	10	(51)	(141)
Net current assets		651	2,355
Net assets		11,829	12,106
Shareholders' equity			
Share capital	11	1,785	1,664
Share premium account		810	69
Capital redemption reserve		88	88
Other reserve		2	2
Merger reserve		5,525	5,525
Capital reserve		3,587	4,442
Investment holding (losses) gains		(4,763)	(4,802)
Special reserve		4,463	4,786
Revenue reserve		332	332
Total Shareholders' equity		11,829	12,106
Net asset value per Ordinary share	12	68.4p	72.7p

The accompanying notes on pages 37 to 54 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 31 March 2011.



Richard Last
Chairman

Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital	Share premium account	*Other reserves	Merger reserve	Capital reserve	Investment holding (losses) gains	Special reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2008	1,664	69	90	5,525	3,497	(3,169)	4,786	332	12,794
<i>Revenue return for the year</i>	–	–	–	–	–	–	–	70	70
<i>Capital expenses</i>	–	–	–	–	(227)	–	–	–	(227)
<i>Investment holding loss on investments held at fair value</i>	–	–	–	–	–	(1,326)	–	–	(1,326)
<i>Realisation of investments in the year</i>	–	–	–	–	1,793	–	–	–	1,793
Total comprehensive income for the year	–	–	–	–	1,566	(1,326)	–	70	310
<i>Dividends</i>	–	–	–	–	(928)	–	–	(70)	(998)
Total transactions with owners	–	–	–	–	(928)	–	–	(70)	(998)
<i>Realisation of prior year investment holding gains</i>	–	–	–	–	307	(307)	–	–	–
Balance at 31 December 2009	1,664	69	90	5,525	4,442	(4,802)	4,786	332	12,106
<i>Revenue return for the year</i>	–	–	–	–	–	–	–	10	10
<i>Capital expenses</i>	–	–	–	–	(231)	–	–	–	(231)
<i>Investment holding loss on investments held at fair value</i>	–	–	–	–	–	(252)	–	–	(252)
<i>Realisation of investments in the year</i>	–	–	–	–	370	–	–	–	370
Total comprehensive income for the year	–	–	–	–	139	(252)	–	10	(103)
<i>Issue of share capital</i>	121	792	–	–	–	–	–	–	913
<i>Issue costs</i>	–	(51)	–	–	–	–	–	–	(51)
<i>Purchase of own shares</i>	–	–	–	–	–	–	(323)	–	(323)
<i>Dividends</i>	–	–	–	–	(703)	–	–	(10)	(713)
Total transactions with owners	121	741	–	–	(703)	–	(323)	(10)	(174)
<i>Realisation of prior year investment holding gains</i>	–	–	–	–	(291)	291	–	–	–
Balance at 31 December 2010	1,785	810	90	5,525	3,587	(4,763)	4,463	332	11,829

The accompanying notes on pages 37 to 54 are an integral part of these financial statements.

*The other reserves include the capital redemption reserve and other reserve, which are non-distributable. The other reserve was created on the exercise of warrants and the capital redemption reserve was created on the purchase and cancellation of own shares.

The merger reserve was created to account for the difference between the nominal and fair value of shares issued as consideration for the acquisition of the assets and liabilities of British Smaller Technology Companies VCT plc. The reserve was created after meeting the criteria under section 131 of the Companies Act 1985 and provisions of the Companies Act 2006 for merger relief. The merger reserve is a non-distributable reserve.

The special reserve was created following the approval of the Court and the resolution of the Shareholders to cancel the Company's share premium account and is available for other corporate purposes of the Company. The capital reserve includes gains and losses compared to cost on the realisation of investments, capital expenses, together with the related taxation effect and capital dividends paid to Shareholders. This is a distributable reserve. This investment holding gain (loss) reserve includes increases and decreases in the valuation of investment held at fair value. This is a non-distributable reserve.

The special reserve, capital reserve and revenue reserve are all distributable reserves. These reserves total £8,382,000 (2009: £9,560,000) representing a decrease of £1,178,000 (2009: £945,000 increase) during the year. This change arises from the loss in the year of £103,000 (2009: £310,000 profit), movements in the investment holding gain (loss) reserve of £39,000 (2009: £1,633,000), dividends of £713,000 (2009: £998,000) and purchase of shares of £323,000 (2009: nil). The directors also take into account the level of the investment holding gain (loss) reserve when determining the level of dividend payments.

Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Net cash (outflow) inflow from operating activities	14	(312)	125
Cash flows (used in) from investing activities			
Purchase of financial assets at fair value through profit or loss	7	(3,135)	(1,175)
Proceeds from sale of financial assets at fair value through profit or loss	7	1,525	4,243
Deferred consideration		301	–
Net cash (used in) from investing activities		(1,309)	3,068
Cash flows used in financing activities			
Issue of share capital		913	–
Issue costs		(51)	–
Purchase of own shares		(323)	–
Dividends paid		(713)	(998)
Net cash used in financing activities		(174)	(998)
Net (decrease) increase in cash and cash equivalents		(1,795)	2,195
Cash and cash equivalents at beginning of the year		2,304	109
Cash and cash equivalents at the end of the year	9, 15	509	2,304

The accompanying notes on pages 37 to 54 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2010

1. Principal Accounting Policies

Basis of Preparation

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

The financial statements have been prepared under the historical cost convention as modified by the measurement of investments and quoted Government Securities at fair value through profit or loss.

Where guidance set out in the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the Association of Investment Companies in January 2009 (SORP) is consistent with the requirements of IFRS, the financial statements have been prepared in compliance with the recommendations of the SORP.

The financial statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. None of the new standards and amendments to standards mandatory for the first time for the financial year commencing 1 January 2010 have had an impact on the preparation of the financial statements.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been early adopted in these financial statements. These include amendments to IFRS 7, IAS 12, IAS 24, IAS 32, IFRIC 14, and the issue of IFRS 9 and IFRIC 19 along with the improvements to IFRS issued in May 2010. These changes are not expected to have a material impact on the financial statements.

Investments Held at Fair Value Through Profit or Loss

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

Transaction costs on purchases are expensed immediately through the Income Statement in accordance with IFRS.

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

Quoted investments are valued at market bid prices.

Unquoted investments are valued in accordance with IAS 39 'Financial instruments: Recognition and Measurement' and, where appropriate, the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines issued in September 2010. The investment valuations in the financial statements for the year ended 31 December 2009 were made in accordance with IAS 39 and the IPEVC guidelines issued in October 2006. The updates to the IPEVC consist of clarifications and expanded guidance therefore application of the revised guidelines as at 31 December 2009 would not have resulted in significant changes to the investment valuations at that date. A detailed explanation of the valuation policies of the Company is included on page 19.

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

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

Investments in quoted Government Securities are classified at fair value through profit or loss as they do not meet the definition in IAS 7 'Cash flow statements' of short-term highly liquid investments that are readily convertible into known amounts of cash and subject to insignificant risk of change in value. Government Securities are valued at market bid prices.

Notes to the Financial Statements

Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established. Dividends receivable on quoted equity shares are recognised as revenue on an ex-dividend basis. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis using the effective interest rate over the life of the financial instrument. Income from deposit interest is included on an effective interest rate basis and is accrued to the end of the period.

Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Income Statement, except for fund management fees. Of these fees 75 per cent are instead allocated to the capital column of the Income Statement, 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.

Tax relief is allocated to capital using a marginal rate basis.

Cash and Cash Equivalents

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

Capital Reserve

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

Investment Holding Gain (Loss) Reserve

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

Special Reserve

The special reserve was created following the approval of the Court and the resolution of the Shareholders in May 2003 to cancel the Company's share premium account. The special reserve is a distributable reserve and is available for other corporate purposes of the Company.

Taxation

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Section 274 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or investment holding gain 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.

Foreign Exchange

Foreign currency assets at the balance sheet date are translated into sterling at the rates of exchange ruling at that date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling on the date of each transaction. Realised losses or profits on exchange, together with differences arising on the translation of foreign currency assets, are taken through profit or loss for the year.

Dividends Payable

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

Segmental Reporting

The directors are of the opinion that the Company has engaged in a single reportable segment of investing in equity and debt securities and therefore no segmental reporting is provided.

Notes to the Financial Statements

Critical Accounting Estimates and Judgements

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

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

2. Income

	2010 £000	2009 £000
Income from investments		
– Dividends from unquoted companies	6	10
– Dividends from AIM quoted companies	22	20
	28	30
– Interest on loans to unquoted companies	117	115
– Fixed interest Government securities	162	209
Income from investments held at fair value through profit or loss	307	354
Interest on bank deposits	14	9
Interest on VAT recovered in 2008	–	9
	321	372

3. Administrative Expenses

	2010 £000	2009 £000
Fund management fee	308	317
Other expenses:		
Administration fee (including irrecoverable VAT)	52	50
Directors' remuneration	68	68
Auditors' remuneration-audit fees (excluding irrecoverable VAT)	16	15
General expenses	98	79
	542	529

YFM Private Equity Limited provides fund management services to the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005. The agreement may be terminated by not less than twelve months' notice given by either party at any time.

The key features of the agreement are:

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2½% of Net Asset Value, calculated at half-yearly intervals as at 30 June and 31 December. The fund management fee is allocated between capital and revenue as described in note 1; and
- Under this same agreement YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue.

The total remuneration payable to YFM Private Equity Limited in the period was £360,000 (2009: £367,000).

Notes to the Financial Statements

3. Administrative Expenses (continued)

Under the Subscription Rights Agreement dated 28 November 2000 (assigned as described on page 30), YFM Private Equity Limited and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year, plus the average of the middle market quotation per Ordinary share exceeds 120 pence per Ordinary share on that same day multiplied by the number of Ordinary shares in issue and the shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity Limited and Generics Asset Management Limited as amended by an agreement between those parties dated 31 October 2005. No shares have been issued in either year under this agreement.

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

Fees are payable to the auditors of £6,250 in respect of other services supplied pursuant to legislation (2009: nil). This relates to a service supplied in the year in respect of the Prospectus document issued.

4. Taxation

	2010			2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Corporation tax at 21% (2009: 21%)	–	–	–	11	(11)	–
Profit (loss) before taxation	10	(113)	(103)	81	229	310
Profit (loss) before taxation multiplied by standard small company rate of corporation tax in UK of 21% (2009: 21%)	2	(24)	(22)	17	48	65
Effect of:						
UK dividends received	(6)	–	(6)	(6)	–	(6)
Non taxable profits on investments	–	(24)	(24)	–	(98)	(98)
Excess management expenses	4	48	52	–	39	39
Tax charge (credit)	–	–	–	11	(11)	–

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

Deferred tax assets of £406,000 calculated at 21% (2009: £354,000) in respect of unrelieved management expenses have not been recognised as management do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

Due to the Company's status as a venture capital trust and the continued intention to meet with the conditions required to comply with Section 274 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.

Notes to the Financial Statements

5. Dividends

Amounts recognised as distributions to equity holders in the period:

	2010			2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2009 of 2.0p (2008 year end: 2.0p) per share	–	356	356	–	333	333
Interim dividend for the year ended 31 December 2010 of 2.0p (2009: 2.0p) per share	10	347	357	70	262	332
Special dividend for the year ended 31 December 2009 of 2.0p per share	–	–	–	–	333	333
	10	703	713	70	928	998

A final dividend of 2.0 pence per Ordinary share in respect of the year to 31 December 2010 is proposed. This dividend has not been recognised in the year ended 31 December 2010 as the obligation did not exist at the balance sheet date.

6. Basic and Diluted Earnings (Loss) per Ordinary Share

The basic and diluted return per Ordinary share is based on the loss after tax attributable to Shareholders of £103,000 (2009: £310,000 profit) and 17,449,179 (2009: 16,641,257) shares being the weighted average number of shares in issue during the year.

The basic and diluted revenue return per Ordinary share is based on the profit for the year attributable to Shareholders of £10,000 (2009: £70,000) and 17,449,179 (2009: 16,641,257) shares being the weighted average number of shares in issue during the year.

The basic and diluted capital return per Ordinary share is based on the capital loss for the year attributable to Shareholders of £113,000 (2009: £240,000 profit) and 17,449,179 (2009: 16,641,257) shares being the weighted average number of shares in issue during the year.

During the year the Company issued 1,203,539 Ordinary shares. The Company has also repurchased 566,100 of its own shares which are held in treasury. The treasury shares have been excluded in calculating the weighted average number of Ordinary shares during the year from 3 November 2010 (31 December 2009: nil).

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out in note 3. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2010 or 31 December 2009. Consequently, basic and diluted earnings per share, basic and diluted revenue return per share and basic and diluted capital return per share are the same for the year ended 31 December 2010 and 31 December 2009.

Notes to the Financial Statements

7. Financial Assets at Fair Value Through Profit or Loss

During the year the Company has adopted the amendment to IFRS 7 in respect of financial instruments that are measured in the balance sheet at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

There have been no transfers between these classifications in the period (2009: none), and the movement in Level 3 instruments is disaggregated below. The change in fair value for the current and previous year is recognised through the profit and loss account.

All items held as fair value through profit or loss were designated as such upon initial recognition. Movements in investments at fair value through profit or loss during the year to 31 December 2010 are summarised as follows:

IFRS 7 measurement classification	Level 3	Level 3	Level 1		Level 1	
	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	Total Quoted and Unquoted £000	Fixed Income Securities £000	Total Investments £000
Opening cost	7,352	2,174	1,164	10,690	3,323	14,013
Opening investment holding (loss) gain	(3,285)	(1,074)	(176)	(4,535)	59	(4,476)
Opening fair value at 1 January 2010	4,067	1,100	988	6,155	3,382	9,537
Additions at cost	929	190	239	1,358	1,777	3,135
Disposal proceeds	(205)	(189)	–	(394)	(1,131)	(1,525)
Net profit (loss) realised on disposal	–	44	–	44	(20)	24
Change in fair value in the year on assets held at 31 December 2010	(361)	128	9	(224)	(28)	(252)
Closing fair value at 31 December 2010	4,430	1,273	1,236	6,939	3,980	10,919
Closing cost	7,044	2,046	1,403	10,493	3,974	14,467
Closing investment holding (loss) gain	(2,614)	(773)	(167)	(3,554)	6	(3,548)
Closing fair value at 31 December 2010	4,430	1,273	1,236	6,939	3,980	10,919

Notes to the Financial Statements

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

Movements in investments at fair value through profit or loss during the year to 31 December 2009 are summarised as follows:

	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	Total Quoted and Unquoted £000	Fixed Income Securities £000	Total Investments £000
Opening cost	7,108	1,885	1,501	10,494	4,701	15,195
Opening investment holding (loss) gain	(1,926)	(793)	(287)	(3,006)	163	(2,843)
Opening fair value at 1 January 2009	5,182	1,092	1,214	7,488	4,864	12,352
Additions at cost	259	450	–	709	466	1,175
Disposal proceeds	(1,821)	(161)	(641)	(2,623)	(1,834)	(4,457)
Net profit (loss) realised on disposal	1,553	–	290	1,843	(50)	1,793
Change in fair value in the year on assets held at 31 December 2009	(1,106)	(281)	125	(1,262)	(64)	(1,326)
Closing fair value at 31 December 2009	4,067	1,100	988	6,155	3,382	9,537
Closing cost	7,352	2,174	1,164	10,690	3,323	14,013
Closing investment holding (loss) gain	(3,285)	(1,074)	(176)	(4,535)	59	(4,476)
Closing fair value at 31 December 2009	4,067	1,100	988	6,155	3,382	9,537

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

	Level 1 £000	Level 3 £000	Total £000
Opening fair value at 1 January 2010	4,370	5,167	9,537
Additions at cost	2,016	1,119	3,135
Disposal proceeds	(1,131)	(394)	(1,525)
Net (loss) profit realised on disposal	(20)	44	24
Change in fair value in the year on assets held at 31 December 2010	(19)	(233)	(252)
Closing fair value at 31 December 2010	5,216	5,703	10,919

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect the fair value of financial assets held at the price of recent investment, or to adjust earnings multiples. Changing one of the inputs to the valuation to reasonably possible alternative assumptions would change the fair values significantly, and would increase or decrease net assets and total profit for the year by £262,000 (2.2% of net assets).

The total of fair value adjustments below cost made against unquoted investments during 31 December 2010 amounted to £1,224,000 (2009: £1,631,000). This includes no amounts written off such investments in 2010 or 2009.

There were no individual reductions in fair value during the year that exceeded 5% of the total assets of the Company. In 2009, the fair value of Silistix Limited was reduced by £794,000.

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

Notes to the Financial Statements

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

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

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2010	Profit on realisation
	£000	£000	£000	£000
Primal Pictures	205	64	205	–
RMS Group Holdings Limited	189	179	145	44
	394	243	350	44
<i>Deferred proceeds:</i>				
DxS Limited	298	–	214	84
Tekton Group Limited	3	–	–	3
DxS Limited (deferred consideration included in debtors)	259	–	–	259
Total proceeds from quoted and unquoted investments	954	243	564	390
Fixed Income Securities	1,131	1,126	1,151	(20)
Total	2,085	1,369	1,715	370

The Company may become entitled to receive up to \$1,283,000 (2009: \$2,040,000) in respect of the sale of DxS Limited over the period to 2015, \$456,000 in relation to potential liabilities and the remainder subject to that company achieving specific performance milestones. At the year end £259,000 (2009: £214,000) was included within non-current receivables in respect of this deferred consideration.

The following disposals took place in 2009 (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale	Cost	Opening carrying value as at 1 January 2009	Profit on realisation
	£000	£000	£000	£000
The Art Technology Group Inc (NASDAQ)	638	275	340	298
Oxonica plc (AIM)	3	62	11	(8)
RMS Group Holdings Limited	13	13	13	–
DxS Limited	1,755	162	416	1,339
	2,409	512	780	1,629
<i>Deferred proceeds:</i>				
DxS Limited (deferred consideration included in debtors)	214	–	–	214
Total proceeds from quoted and unquoted investments	2,623	512	780	1,843
Fixed Income Securities	1,834	1,845	1,884	(50)
Total	4,457	2,357	2,664	1,793

Notes to the Financial Statements

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

Significant Interests

At 31 December 2010 the Company held a significant holding of at least 20% of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No. of shares	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Deep-Secure Ltd	Software	50,000	Ordinary	6%	45%
Digital Healthcare Limited	Medical Instruments	3,137,345	Ordinary	25%	–
Ellfin Home Care Limited	Healthcare	27,259	Ordinary	6%	74%
Harvey Jones Limited	Consumer Retail	38,858	Ordinary	7%	54%
Primal Pictures Limited	Medical Instruments	350,640	Ordinary	16%	4%
RMS Group Holdings Limited	Industrial Services	64,618	Ordinary	3%	21%
Waterfall Services Limited	Healthcare	25,010	Ordinary	5%	23%

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

YFM Private Equity Limited, the Company's Fund Manager, also acts as fund manager to certain other funds under its management that have also invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised below. The amounts shown are the investments made at cost as at 31 December 2010 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT plc £000	North West Business Investment Scheme £000	YFM Equity Partners Limited £000	The Chandos Fund £000	Total £000	Total for this Company £000
Bluebell Telecom Group Limited	500	–	–	–	500	500
Brulines plc	163	–	–	–	163	81
Cambridge Cognition Limited	325	–	–	–	325	240
Deep-Secure Ltd	1,000	–	–	2,000	3,000	500
Digital Healthcare Limited	–	–	22	–	22	3,072
Ellfin Home Care Limited	823	1,098	–	1,774	3,695	317
Harvey Jones Limited	777	–	–	2,234	3,011	389
Patsystems plc	222	–	–	–	222	317
Pressure Technologies plc	425	–	–	–	425	300
Primal Pictures Limited	468	–	29	–	497	897
RMS Group Holdings Limited	540	–	–	750	1,290	210
Silistix Limited	–	1,156	–	–	1,156	1,365
Tissuemed Limited	–	–	–	–	–	48
Waterfall Services Limited	1,000	–	–	–	1,000	250

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

Notes to the Financial Statements

8. Trade and Other Receivables

	2010 £000	2009 £000
Non-current assets:		
Accrued income	259	214
Current assets:		
Trade receivables	32	325
Less: Allowances for credit losses on trade receivables	–	(296)
Prepayments and accrued income	161	163
	193	192
Allowance for credit losses on trade receivables:		
Allowances as at 1 January	296	282
Additions – charged to statement of comprehensive income	–	14
Write offs	(296)	–
Allowances as at 31 December	–	296

Trade receivables are assessed for reduction in fair value when older than 90 days or where there is reasonable doubt that payment will be received in due course. As of 31 December 2010, trade receivables of £32,000 (2009: £29,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2010 £000	2009 £000
1 – 3 months	32	29
3 – 6 months	–	–
More than 6 months	–	–

As of 31 December 2010, there were zero trade receivables (2009: £296,000) impaired and provided for. The ageing of these receivables is as follows:

	2010 £000	2009 £000
1 – 3 months	–	14
3 – 6 months	–	–
6 – 12 months	–	–
More than 12 months	–	282

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

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £32,000 (2009: £29,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2010 £000	2009 £000
Cash at bank	509	204
Cash held in liquidity funds	–	2,100
	509	2,304

Notes to the Financial Statements

10. Trade and Other Payables

	2010 £000	2009 £000
Amounts payable within one year:		
Accrued expenses	51	47
Other creditors	–	94
	51	141

11. Called-up Share Capital

	2010		2009	
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10p				
Authorised: 50,000,000 (2009: 50,000,000)	5,000		5,000	
Issued: 17,844,796 (2009: 16,641,257) including 566,100 shares are held in treasury.		1,785		1,664

The movement in the year was as follows:

	Date	Number	Share Capital £000
Total as at 1 January 2010		16,641,257	1,664
Issue of shares	5 April 2010	953,798	96
Issue of shares	30 April 2010	242,464	24
Issue of shares	18 November 2010	7,277	1
As at 31 December 2010 (including treasury shares)		17,844,796	1,785

During the year the Company purchased 566,100 (2009: nil) of its own shares and these shares are held in treasury on the Balance Sheet. Full details of the share purchases are set out in the Directors' Report under the heading 'Issue and Purchase of Own Shares'. The treasury shares have been included in calculating the number of Ordinary shares in issue at 31 December 2010.

The Company is party to a share based payment arrangement as defined by IFRS 2 'Share based payments'. The details of the arrangement are explained in the "Administration" section of the Directors' Remuneration Report on page 30. As the arrangement was entered into prior to 7 November 2002, the Company is not required to account for the arrangement under IFRS 2. No shares have been issued to date under this arrangement.

Notes to the Financial Statements

12. Net Asset Value per Ordinary Share

The basic and diluted net asset value per Ordinary share is calculated on attributable assets of £11,829,000 (2009: £12,106,000) and 17,278,696 (2009: 16,641,257) shares in issue at the year end.

The treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 December 2010.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out in note 3. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2010 or 31 December 2009. Consequently, basic and diluted net asset value per Ordinary share is the same for the year ended 31 December 2010 and 31 December 2009.

13. Total Return per Ordinary Share

The total return per Ordinary share is calculated on cumulative dividends paid of 26.0 pence per Ordinary share (2009: 22.0 pence per Ordinary share) plus the net asset value as calculated per note 12.

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

	2010 £000	2009 £000
(Loss) profit before taxation	(103)	310
(Decrease) increase in trade and other payables	(90)	86
(Increase) decrease in trade and other receivables	(1)	196
Gains on realisation of investments in the year	(370)	(1,793)
Losses on investments held at fair value	252	1,326
Net cash (outflow) inflow from operating activities	(312)	125

Cash movements above include the following:

	2010 £000	2009 £000
Dividends received	28	30
Interest received		
– gilt interest	153	225
– deposit interest	16	7
Total interest	197	262

15. Analysis of Changes in Cash and Cash Equivalents

	1 January 2010 £000	Cash flow £000	Other non cash changes £000	31 December 2010 £000
Cash at bank	204	305	–	509
Cash held in liquidity funds	2,100	(2,100)	–	–
	2,304	(1,795)	–	509

Notes to the Financial Statements

16. Financial Commitments

At 31 December 2010 the Board had committed a further £133,000 into Sirigen Limited which has not been reflected in these accounts. The investment is dependent on the achievement of certain development milestones (2009: none). Since the year end no further investments (2009: none) have been approved by the Board.

17. Related Party Transactions

YFM Equity Partners Limited (formerly YFM Group Limited), the parent company of YFM Private Equity Limited, the Fund Manager to the Company, holds investments in Digital Healthcare Limited and Primal Pictures Limited, investee companies of British Smaller Companies VCT2 plc. At 31 December 2010 YFM Equity Partners Limited's investment in Digital Healthcare Limited was valued at £21,791 (2009: £21,791) and its investment in Primal Pictures Limited was valued at £29,161 (2009: £25,428).

Mr Last is a non-executive director of Patsystems plc. During the year Mr Last received £45,000 (2009: £45,000) from Patsystems plc in respect of his services. Mr Last holds a 0.4% equity stake in Patsystems plc.

Mr Pettigrew holds a 0.1% equity stake in Digital Healthcare Limited.

18. Events After the Balance Sheet Date

Your Board has published proposals offering investors the opportunity to subscribe for up to 12,811,388 new Ordinary shares in the Company at an offer price of 70.25 pence per share. These proposals were by way of two offers closing on 5 April 2011 and 29 April 2011 respectively. The closing date for the offer in relation to the tax year 2011/2012 was subsequently extended to 4 May 2011. Pursuant to the offers an initial allotment of £2,567,989 for 3,655,500 Ordinary shares was made on 22 March 2011.

19. Financial Instruments

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

The investments are valued in accordance with the policy stated on page 19. 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 venture capital trust legislation and provide potential high future capital growth. Surplus funds are held in fixed rate Government Securities or in high quality AAA rated liquidity funds until suitable qualifying investment opportunities arise.

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

Notes to the Financial Statements

19. Financial Instruments (continued)

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

Assets as per balance sheet

	2010		2009	
	Loans and receivables	Assets at fair value through profit or loss	Loans and receivables	Assets at fair value through profit or loss
	£000	£000	£000	£000
Non-current assets				
Trade and other receivables	259	–	214	–
Current assets				
Cash and cash equivalents	509	–	2,304	–
Trade and other receivables	32	–	79	–
Financial assets at fair value through profit and loss	–	10,919	–	9,537
	800	10,919	2,597	9,357
Other assets – not financial instruments	161	–	113	–
	961	10,919	2,710	9,537

Liabilities as per balance sheet

	2010 Other financial liabilities £000	2009 Other financial liabilities £000
Trade and other payables	(51)	(141)
	(51)	(141)

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.

Notes to the Financial Statements

19. Financial Instruments (continued)

At 31 December 2010 and 31 December 2009, the financial investments, by value, comprised:

	2010		2009	
	£000	%	£000	%
Venture capital investments				
Ordinary shares	5,148	43.5	4,574	37.8
Loan stock	1,273	10.8	1,100	9.1
Preferred Ordinary shares	518	4.4	481	4.0
	6,939	58.7	6,155	50.9
Fixed interest government securities	3,980	33.6	3,382	27.9
Cash at bank	509	4.3	204	1.7
Cash held in liquidity funds	–	–	2,100	17.3
Other financial assets	291	2.4	293	2.5
Other financial liabilities	(51)	(0.4)	(141)	(1.2)
	11,668	98.6	11,993	99.1
Other assets – not financial instruments	161	1.4	113	0.9
	11,829	100.0	12,106	100.0

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 Fund are discussed below. There have been no changes since last year in the objectives, policies, and processes for managing and measuring risks facing the Company.

19a Market Risk

Compliance Risk

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

Equity 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 realised. 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 venture capital trusts.

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

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

18% of the Company's equity investments are traded on AIM (2009: 16%). A 5% increase in stock prices as at 31 December 2010 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £62,000 (2009: £49,000). 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.

Notes to the Financial Statements

19. Financial Instruments (continued)

82% of the Company's equity investments are in unquoted companies held at fair value (2009: 84%). The valuation methodology for these investments includes the application of externally produced FTSE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed element. Investments have been valued in line with the valuation guidelines described on page 19. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10% decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £262,000 (2.3% 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 an equal amount.

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% 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 £262,000 (2.3% 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 £262,000 (2.3% of net assets).

The largest single concentration of risk relates to the Company's investment in Digital Healthcare which constitutes 10% (2009: 14%) 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 3.3% (2009: 3.4%) of the value of net assets.

Interest Rate Risk

The Company's venture capital investments include £1,273,000 (2009: £1,100,000) of loan stock in unquoted companies. The majority of this loan stock is at fixed rates to guard against fluctuations in interest rates. The Company is not exposed to any significant interest rate risk on its loan stock portfolio and is not significantly sensitive to interest rate risk. The Company also has some exposure to interest rates as a result of interest earned on bank deposits. The Company's exposure to interest rate risk is judged to be immaterial.

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

	2010			2009		
	£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	1,273	11.86%	33	1,100	7.68%	35
Government gilts	3,980	4.02%	27	3,382	5.05%	20
Combined	5,253	5.92%	28	4,482	5.97%	26

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

19b Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Fund Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets excluding equity investments total £4,780,000 (2009: £5,979,000) which best represents the maximum credit risk exposure at the balance sheet date.

Credit risk arising on fixed interest instruments is mitigated by investing in UK Government Stock and high quality money market funds. The Company does not invest in floating rate instruments other than 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.

Notes to the Financial Statements

19. Financial Instruments (continued)

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk. All the assets of the Company which are traded on a recognised exchange are held by Singer Capital markets, the Company's stockbroker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited. The Board monitors the Company's risk by reviewing the broker's internal control reports on a regular basis.

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

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

	2010 £000			2009 £000		
	<1 year	1-2 years	2-5 years	<1 year	1-2 years	2-5 years
Unquoted loan investments	–	663	610	–	14	1,086

	2010 £000			2009 £000		
	1 month	3-6 months	> 6 months	1 month	3-6 months	> 6 months
Interest	32	–	–	30	–	–
Capital repayment	–	–	–	–	–	–

19c Liquidity Risk

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

The Company also 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 high quality AAA rated liquidity funds, which invest in a pool of highly rated money market securities. The Company's listed securities are considered to be readily realisable as they relate solely to UK Government stock, which is widely traded. Investments in Government stocks and liquidity funds are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise. Consequently, trading in Government stocks is primarily determined by the demand for venture capital funds.

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

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

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. 4% (2009: 19%) of the Company's assets are in the forms of liquid cash and cash equivalents. There are no undrawn committed borrowing facilities at either year end. The Company does not have a material amount of liabilities at the year end (2009: same).

Notes to the Financial Statements

19. Financial Instruments (continued)

Fair Value Methods and Assumptions

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

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

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

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

20. Capital Management

The Company's objectives when managing capital are:

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

The Company has no external debt, consequently all capital is represented by the value of share capital, distributable and other reserves. Total Shareholder equity at 31 December 2010 was £11.8 million (2009: 12.1 million).

At a Shareholder meeting held on 18 October 2010 the Shareholders voted in favour of re-introducing a buy back policy and the rate of discount to net asset value at which the Company's shares are bought back has been set at no more than 15%. Since then the Company has purchased 566,100 Ordinary shares at a average price of 57.04 pence per share. These shares are held in treasury.

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

Notice of the Annual General Meeting

No: 4084003

BRITISH SMALLER COMPANIES VCT2 PLC

(formerly British Smaller Technology Companies VCT 2 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 16 May 2011 at 12:00 noon for the following purposes:

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

As Ordinary Business

ORDINARY RESOLUTIONS

- (1) That the Annual Report and Accounts for the year ended 31 December 2010 be received.
- (2) That the final dividend of 2.0 pence per Ordinary share for the year ended 31 December 2010 be approved.
- (3) That the Directors' Remuneration Report for the year ended 31 December 2010 be approved.
- (4) That Mr R M Pettigrew, who retires by virtue of service for more than nine years, be re-elected as a director.
- (5) That Mr R Last, who retires by virtue of service for more than nine years, be re-elected as a director.
- (6) That Mr P C Waller be elected as a director.
- (7) That Grant Thornton UK LLP be re-appointed as auditors to the Company to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.

As Special Business

SPECIAL RESOLUTIONS

- (8) That in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of Ordinary shares of 10 pence in the capital of the Company provided that:
 - (1) the maximum aggregate number of Ordinary shares that may be purchased is 2,590,076, being 14.99% of the issued Ordinary shares as at 31 December 2010;
 - (2) the maximum price which may be paid for an Ordinary share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;
 - (3) the minimum price which may be paid for an Ordinary share is its nominal value;
 - (4) this authority shall take effect from 16 May 2011 and shall expire at the conclusion of the Company's next Annual General Meeting or on the expiry of 15 months following the passing of the resolution, whichever is the earlier; and
 - (5) the Company may make a contract or contracts to purchase Ordinary shares under this authority before the expiry of the authority, which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of Ordinary shares in pursuance of any such contract or contracts.
- (9) That the directors be and are hereby empowered in accordance with section 570(1) of the Companies Act 2006 during the period commencing on the passing of this resolution and expiring on 11 January 2016 (unless previously revoked, varied or extended by the Company in General Meeting), to allot equity securities (as defined in Section 560 of the Companies Act 2006) for cash pursuant to the general authority conferred upon the directors in resolution 3 (ordinary resolution authorising the allotment of shares in connection with the Company's dividend reinvestment scheme) passed at the General Meeting on 11 January 2011, as if section 561 of the Companies Act 2006 did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with a dividend reinvestment scheme but so that this authority shall allow the Company to make offers or agreements before its expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired.

BY ORDER OF THE BOARD

J E P Gervasio
Secretary
31 March 2011

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

Notice of the Annual General Meeting

Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006, is available from www.yfmep.co.uk

NOTES:

- (a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. 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 and 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 Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- (c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note (d) directly below, the proxy appointment will remain valid.
- (d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- (e) Copies of the Directors' Letters of Appointment and the Register of Directors' interests in the Ordinary Shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturday and Public Holidays excluded) from the date of this notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.
- (f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 6pm on 12 May 2011 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6pm. on 12 May 2011 or, in the event that the 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 31 December 2010, the Company's issued share capital comprised 17,278,696 Ordinary shares with a further 566,100 shares held in treasury. The total number of voting rights in the Company as at 31 December 2010 was 17,278,696. 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) 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 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.
- (k) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the proxy form), to communicate with the Company for any purposes other than those expressly stated.
- (l) 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 VCT2 PLC
(formerly British Smaller Technology Companies VCT 2 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 16 May 2011 at 12:00 noon

I/We _____ being a member/members of the above named
Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Annual General
Meeting or (see notes (2) and (3)) _____ 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 16 May 2011 at 12:00 noon
and at any adjournment thereof.

Number of Ordinary shares proxy is appointed over _____

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

My/our proxy is to vote as indicated below. Please indicate with an 'x' how you wish your vote to be cast.

	FOR	AGAINST	WITHHELD
Ordinary Business ORDINARY RESOLUTIONS			
1. To receive the Annual Report and Accounts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve a final dividend of 2.0 pence per Ordinary share	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To approve the Directors' Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect as a director Mr R M Pettigrew	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect as a director Mr R Last	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect as a director Mr P C Waller	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. To re-appoint Grant Thornton UK LLP as auditors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Special Business SPECIAL RESOLUTIONS			
8. To authorise the Company to make purchases of its own shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. To waive pre-emption rights in respect of shares allotted pursuant to the Dividend Reinvestment Scheme.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signature _____

Dated _____

2011

NOTES

- The Notice of the Annual General Meeting is set out on pages 55 to 56 of the Annual Report.
- Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. 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 appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
- If you wish to appoint a proxy of your own choice delete the words "the Chairman of the General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
- Any alterations to the Form of Proxy should be initialled.
- To be valid, a Form of Proxy and 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 Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at the meeting at which the demand is made.
- In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
- In the case of a corporation, this form must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
- In the case of joint shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
- Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
- A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.
- CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

BRITISH SMALLER COMPANIES VCT2 PLC
(formerly British Smaller Technology Companies VCT 2 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 16 May 2011 at 12:00 noon

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

Advisers to the Company

The accounts were prepared under International Financial Reporting Standards in all years and the profit before and after tax relates to the total return as calculated in accordance with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'.

Fund Manager and Custodian

YFM Private Equity Limited

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

Registrars

Capita Registrars Limited

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Solicitors

Keeble Hawson LLP

Protection House
16-17 East Parade
Leeds
LS1 2BR

Stockbrokers

Singer Capital Markets

One Hanover Street
London
W1S 1AX

Fixed Interest Securities Adviser

Brewin Dolphin Securities Limited

34 Lisbon Street
Leeds
LS1 4LX

Money Market Fund Adviser

Prime Rate Capital Management LLP

One Vine Street
London
W1J 0AH

Independent Auditors

Grant Thornton UK LLP

2 Broadfield Court
Sheffield
South Yorkshire
S8 0XF

VCT Status Adviser

PricewaterhouseCoopers LLP

1 Embankment Place
London
WC2N 6RH

Bankers

The Royal Bank of Scotland plc

27 Park Row
Leeds
LS1 5QB

British Smaller Companies VCT2 plc

(formerly British Smaller Technology Companies VCT 2 plc)



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

T: 0113 294 5000
F: 0113 294 5002
E: leeds@yfmepl.com