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British Smaller Companies VCT plc

Annual Report for the year ended 31 March 2010

ANNUAL REPORT 2010

British Smaller Companies VCT plc is a top performing Venture Capital Trust*

Contents

YFM Private Equity Limited is part of YFM Group, which is the most active investor in UK SMEs**

British Smaller Companies VCT plc

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

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

Financial Calendar

Results Announced	24 June 2010
Ex-dividend Date	1 September 2010
Record Date	3 September 2010
Annual General Meeting	21 September 2010
Dividend Paid	28 September 2010

* Source Trustnet – Price NAV over 5 years
** Source Private Equity Insight based on number of deals completed in the sub £5 million range in the last five years

HIGHLIGHTS OF THE YEAR

NAV Rises by 10%

Your Company recorded a good performance with an overall increase in Net Asset Value to 94 4 pence per share from 85 7 pence per share at 31 March 2009.

Dividends for the Year

Dividends for the year total 5 0 pence per share subject to Shareholder approval of proposed final 3 0 pence dividend

Special Dividend of 1.25 pence Per Share

It is also proposed that a special dividend of 1 25 pence per share be paid to Shareholders following the profit generated from the sale of the Company's shares in Sheet Piling (UK) Limited

Return

The Company's total return has increased by 1 6% since 31 March 2008, whereas the FTSE AIM All-Share® Index and the FTSE SmallCap® Index have dropped by 26 7% and 5 5% respectively

FINANCIAL SUMMARY

Five Year Summary

	Year ended 31 March 2010	Year ended 31 March 2009	Year ended 31 March 2008	Year ended 31 March 2007	Year ended 31 March 2006
Income	**£1,129,000**	£1,173,000	£1,035,000	£327,000	£413,000
Profit (loss) before and after tax	**£4,202,000**	£(3,266,000)	£2,205,000	£1,225,000	£2,180,000
Profit (loss) per Ordinary share	**13 65p**	(10 62)p	8 51p	7 82p	14 55p
Dividend per Ordinary share paid and proposed for the year	**6 25p**	5 0p	5 0p	4 5p	4 5p
Cumulative dividend paid	**50 0p**	45 0p	40 0p	35 0p	30 5p
Net assets attributed to Ordinary shares	**£29,008,000**	£26,400,000	£26,198,000	£15,394,000	£15,260,000
Net Asset Value per Ordinary share	**94 4p**	85 7p	102 1p	101 3p	97 5p
Total return per Ordinary share	**144 4p**	130 7p	142 1p	136 3p	128 0p

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*
Dividends paid to 31 March 2010	42 0	8 0	**50 0**

*Excluding dividends proposed of 4 25 pence per share which will be paid out of revenue

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 at 31 March 2010	Cumulative dividends paid since Fundraising*	Total return since Fundraising*	Total return since Fundraising with participation in the DRIS* & **
	Pence	Pence	Pence	Pence	Pence	Pence
1995/96 & 1996/97 Tax Year	100 00	80 00	94 4	50 0	144 4	147 6
1996/97 & 1997/98 Tax Year	100 00	80 00	94 4	48 9	143 3	146 6
1997/98 & 1998/99 Tax Year	105 00	84 00	94 4	45 4	139 8	143 1
2004-05 Tax year (C share***)	100 00	60 00	106 2	15 5	121 7	122 8
2005-06 Tax year	99 50	59 70	94 4	19 5	113 9	115 8
2006/07 & 2007/08 Tax Year	102 50	71 75	94 4	15 0	109 4	110 4
2007/08 & 2008/09 Tax Year	106 25	74 38	94 4	10 0	104 4	104 8

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 £4,332 or £4,428 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 at 31 March 2010	Cumulative dividends paid since Fundraising*	Total return since Fundraising*	Total return since Fundraising with participation in the DRIS* & **
1995/96 & 1996/97 Tax Year (£)	3,000	2,400	2,832	1,500	4,332	4,428

This table excludes the benefits of all tax reliefs

* 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 were invested under the terms of the current DRIS (dividend reinvestment scheme)
***NAV has been adjusted for conversion of C Shares into Ordinary shares in May 2007

CHAIRMAN'S STATEMENT

I am pleased to present to Shareholders the Annual Report of the Company for the year ended 31 March 2010.

Your Company recorded a good performance with an overall increase in Net Asset Value to 94 4 pence per share from 85 7 pence per share at 31 March 2009 Total Return (Net Asset Value plus cumulative dividends) rose to 144 4 pence per share from 130 7 pence per share at 31 March 2009 This represents an increase of 10 5% over the twelve month period to 31 March 2010 which compares to growth in the FTSE SmallCap® Index of 64 3% and the FTSE AIM All-Share® Index of 70 4% over the same interval

However it should be noted that the quoted markets have had a prolonged period of turmoil, with some very large swings in indices over the period If the two-year period from 31 March 2008 is considered the Company's total return has increased by 1 6%, whereas the FTSE AIM All-Share® Index and the FTSE SmallCap® Index have dropped by 26 7% and 5 5% respectively

Growth was achieved despite the challenges arising from the difficult economic environment prevailing in the UK and Europe Notwithstanding the continuing uncertainty, there has been an upturn in performance for some businesses, with quoted multiples improving and your Fund Manager reporting an increase in new investment activity

Dividends paid in the year amounted to 5 0 pence per share (including a 2 0 pence interim dividend) compared to 5 0 pence per share to March 2009 Your Board is recommending that the level of dividends be maintained, and proposes a final dividend of 3 0 pence per share in respect of the year to March 2010 If approved, this dividend will be paid on 28 September 2010 to Shareholders on the register at 3 September 2010 The final dividend has not been recognised in the accounts under IFRS as the contractual obligation did not exist at the balance sheet date

In addition a special dividend of 1 25 pence per share is to be paid to Shareholders on the register at 3 September 2010 following the profit generated from the sale of the Company's shares in Sheet Piling (UK) Limited As this is a Special Dividend the dividend reinvestment scheme is being dis-applied to this dividend payment

Investment Portfolio

During the year the Company disposed of investments generating proceeds of £1 49 million, the most significant being in Sheet Piling (UK) Limited which generated proceeds of £1 29 million Since the Company's original investment in 2001, Sheet Piling had grown to become one of the UK market leaders in the driven steel piling sector The sale of the company's shares back to management results in an uplift over March 2009 value of £0 54 million (1 8 pence per share) and a total return over the life of the investment equivalent to 3 7x the original investment cost of £0 50 million

This year has also seen further progress made by a number of portfolio companies A follow-on investment of £0 12 million was made into Fishawack in December 2009 as part of a £0 60 million funding round to support the acquisition of its US partner Five new investments totalling £4 60 million have also been made since December These include a £1 00 million investment into the £3 5 million buyout of Deep-Secure Limited which provides advanced IT security solutions for defence and governmental bodies around the world and a £0 60 million investment in the management buyout of Lightmain, a manufacturer of playground equipment managed by a team we have known for some years

The Company invested £1 00 million in North Western Investments Limited, backing a successful turnaround manager to acquire underperforming businesses in North West England An investment of £1 00 million into 4G Capital Limited was made supporting a proven entrepreneur to acquire companies moving into new areas of web based software Finally an investment of £1 00 million was made into Adex Bridge Investments Limited to back a highly experienced manager to invest in underperforming and turnaround situations particularly in the Midlands area

Your Board recommends that the level of dividends be maintained and proposes both a final dividend of 3.0 pence per share and a special dividend of 1.25 pence per share be paid following the profit from the sale of Sheet Piling (UK) Limited.

CHAIRMAN'S STATEMENT

A strong unrealised gain was also seen from the portfolio of £3 83 million (2009 a loss of £4 16 million), which comprises a gain of £3 24 million derived from unquoted investments and a gain of £0 59 million from quoted investments The biggest single increase by some margin was from Go Outdoors (£3 32 million) where significant progress has been made in rolling out new stores with historic stores contributing to strong profit growth

The portfolio also generated income during the year of £0 47 million (2009 £0 38 million) in the form of interest and dividend payments, resulting in a total portfolio return for the year before administrative fees of £4 79 million (2009 loss of £3 64 million)

Financial Results

The result for the financial year ended 31 March 2010 was a pre-tax profit of £4 2 million which comprised profits in respect of capital and revenue of £3 6 million and £0 6 million respectively, as compared to pre-tax loss of £3 27 million in 2009 (which comprised a capital loss of £3 94 million and a revenue profit of £0 68 million)

The pre-tax profit for the year has been impacted by the apparent increase in administrative expenses from £0 80 million to £0 90 million However the 2009 figures benefited from a one-off VAT recovery of £0 27 million Excluding this underlying costs were £1 07 million in 2009 which compares with £0 90 million to 2010

The movement in Net Asset Value in the year has been

	Pence/share
31 March 2009	85 7
Dividends paid in year	(5 0)
Net increase in value	13 7
31 March 2010	94 4

Cash and gilt investments at the end of the year amounted to £11 56 million (representing 39 9% of Net Asset Value) A further £1 94 million was received after the year end in respect of the successful fundraising Offers noted below Your Board notes the recent increase in the rate of investment but nonetheless considers that in the short term this is sufficient to take advantage of selective new investment opportunities and support the current portfolio with a view to maximising value

Shareholder Communications and Fundraising

Shareholders will be aware that, on 4 March 2010, your Board published proposals offering existing investors the opportunity to subscribe for up to 2,050,000 new Ordinary shares in the Company at an offer price of 97 25 pence per share These proposals were by way of two Offers closing on 5 April 2010 and 30 April 2010 respectively I am delighted to report that the Offers were fully subscribed and raised a total of £1 94 million before expenses and £1 83 million after expenses

Your Board 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 CEOs of one or more of our investee companies We were delighted to welcome over 100 Shareholders to the most recent workshop held in February 2010 at the Natural History Museum Your Board remains committed to these events which we believe are useful in increasing the knowledge of the Company's activities for Shareholders

Overall increase in Net Asset Value to 94.4 pence per share from 85.7 pence per share at 31 March 2009.

The Board also remains committed to the objective of achieving a consistent dividend stream This policy has been continued with your Board proposing that a final dividend of 3 0 pence per share will be paid on 28 September 2010 to Shareholders on the register as at 3 September 2010 A special dividend of 1 25 pence per share in relation to the disposal of Sheet Piling will be paid to Shareholders on the same date

The Company purchased a total of 331,882 shares during the year at an average price of 73 6 pence per share (2009 298,153 at an average price of 89 0 pence per share) The existing buy-back authority which currently expires on the 21 September 2010 is proposed to be extended until the date of the 2011 Annual General Meeting or fifteen months, whichever is the earlier A resolution to this effect will be proposed at the Company's AGM on 21 September 2010

CHAIRMAN'S STATEMENT

Furthermore the Company issued 244,184 shares at an average price of 81 0 pence per share pursuant to its dividend reinvestment scheme

The Annual General Meeting of the Company will be held at 11 30 am on 21 September 2010 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 54

Other Matters

Your Board continues to monitor regulatory developments, in particular the proposed EU regulation in respect of the management of Alternative Investment Funds These proposals remain in draft form but are in an advanced stage of finalisation at EU level Your Company continues to support the activities of the Association of Investment Companies (AIC) in its consideration and review of these proposals

As reported last year the Board composition has been reviewed in relation to new requirements of the Listing Rules (effective from September 2010) which restricts the number of Directors who may sit on more than one Board managed by the same Fund Manager In the light of these changes Richard Last and Robert Pettigrew will be resigning from the Board at the AGM on 21 September 2010 I would like to record my thanks to them for their very significant contribution over many years Further changes to the Board will be announced in due course

We were delighted to welcome over 100 Shareholders to the most recent workshop held in February 2010 at the Natural History Museum.

In September 2009 The International Private Equity and Venture Capital Valuation Board issued revised guidelines on the valuation of unquoted investments in order to promote consistency with established and emerging International Financial Reporting Standards These have been adopted by the Company in the current year and the Board has reviewed the methodologies applied in reaching appropriate valuations Determining the value of an unquoted company requires information on earning multiples for comparable quoted companies and sectors, suitably adjusted for differences between the comparator company and the company being valued Some other investments are valued at the price of recent investment, reviewed for impairment Quoted investments continue to be valued at bid price A detailed explanation of the valuation policies of the Company is included on page 21, and sensitivities of the key judgements applied on page 51

Outlook

The portfolio has endured challenging economic conditions during the year with many actions being taken to improve efficiency and enhance sales propositions Moreover, the strong individual performance of a small number of investments has resulted in another good overall return Some of our investee companies are focused on acquisitions and the Company will continue to support value growth opportunities

In the light of the outcome of the General Election of 6 May there is still uncertainty regarding economic growth and the speed with which the United Kingdom will fully emerge from recession Notwithstanding this, the Board believes that, with an investment strategy focused on medium to longer term capital growth, the upcoming period should present a number of good investment opportunities, both for the existing portfolio businesses and for new investments An increase in the volume and quality of new investment opportunities under consideration over recent months also supports this view

I would like to take this opportunity to thank Shareholders for their continued support

Helen Sinclair
Chairman
24 June 2010

FUND MANAGER'S REVIEW

Portfolio Valuation at 31 March 2010 and history of realisations up to 31 March 2010

Name of Company	Page	Date of Initial Investment	Location	Industry Sector	Original Cost £000	Realised Proceeds to Date* £000	Investment Valuation at 31 March 2010 £000	Realised and Unrealised to Date £000
Current Investments								
GO Outdoors Limited	10	May-98	Sheffield	Consumer Products	556	460	4 835	5 295
Connaught plc	12	Nov-98	Sidmouth	Support Services	460	943	786	1 729
Waterfall Services Limited	10	Feb-07	Warrington	Support Services	1 000	–	1,617	1 617
Deep-Secure Ltd	10	Dec-09	Reading	Software	1 000	–	1,000	1 000
Adex Bridge Investments Limited	11	Mar-10	Midlands	Turnaround	1 000	–	1,000	1 000
4G Capital Limited	11	Mar-10	North-West	Software	1 000	–	1,000	1 000
North Western Investments Limited	11	Feb-10	North-West	Turnaround	1 000	–	1,000	1 000
Fishawack Limited	12	Jan-08	Knutsford	Communications	618	–	709	709
Hargreaves Services plc	12	Dec-07	Durham	Industrial	469	–	614	614
Lightmain Company Limited	13	Mar-10	Rotherham	Manufacturing	600	–	600	600
Pressure Technologies plc	13	Jun-07	Sheffield	Industrial	425	–	579	579
Mattioli Woods plc	13	Nov-05	Leicester	Support Services	326	–	555	555
RMS Group Holdings Limited	14	Jul-07	Goole	Industrial	1 050	60	383	443
Harvey Jones Holdings Limited	14	May-07	London	Manufacture	777	–	417	417
Primal Pictures Limited	15	Mar-01	London	Healthcare	500	62	345	407
K3 Business Technology Group plc	14	Apr-08	Colne	Software	402	–	378	378
Straight plc	15	Feb-04	Leeds	Industrial	341	64	286	350
Payzone plc	19	Jun-02	Dublin	Consumer Products	318	311	-	311
Denison Mayes Group Limited	18	Aug-98	Leeds	Industrial	700	275	25	300
Tikit Group plc	15	Jun-01	London	Software	226	-	290	290
Elffin Home Care Limited	16	Dec-07	Oldham	Healthcare	769	–	211	211
Freshroast Coffee Co Limited	18	Jul-96	Elland	Consumer Products	160	166	30	196
Patsystems plc	16	Oct-07	London	Software	222	–	185	185
Brulines plc	16	Oct-06	Stockton-on-Tees	Software	163	–	165	165
Darwin Rhodes Group Limited	17	Apr-08	London	Recruitment	444	–	105	105
Harris Hill Holdings Limited	17	Jun-07	Kingston-upon-Thames	Recruitment	600	–	100	100
Belgravium Technologies plc	17	Oct-05	Bradford	Software	200	–	41	41
Hexagon Human Capital plc	19	Feb-07	London	Support Services	200	–	–	–
Cambridge Cognition Limited	18	May-02	Cambridge	Software	325	-	–	–
					15,851	**2,341**	**17,256**	**19,597**
Full realisations since March 2002					10 132	14 956	–	14,956
Full realisations prior to March 2002					6,394	3,246	-	3 246
Total realised and unrealised to date					**32,377**	**20,543**	**17,256**	**37,799**

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

FUND MANAGER'S REVIEW

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

GO Outdoors Limited

Sheffield
www gooutdoors co uk

Cost	£155,697
Valuation	£4,835,000
Dates of Investment	May 1998, March 2002 and April 2007
Equity held	20 55%
Valuation basis	Earnings multiple
Dividends received	£52,259 (2009 £330)

52 weeks ended	**24 Jan 2009 £million**	26 Jan 2008 £million
Sales	**41 19**	31 64
Profit before tax	**1 21**	0 02
Retained profits	**2 08**	1 34
Net assets	**7 22**	6 47

GO Outdoors is a retailer of outdoor clothing and equipment The original investment of £500,000 in May 1998 supported the buyout with a second investment in March 2002 to support the company's first acquisition The company has continued its expansion opening a further ten stores since January 2008, taking the total number of outlets to twenty-three with further expansion planned

Waterfall Services Limited

Warrington
www caterplus co uk

Cost	£1 000 129
Valuation	£1,617,000
Date of Investment	February 2007
Equity held	18 00%
Valuation basis	Earnings multiple
Dividends received	£23,333 (2009 £23,333)
Interest	£53,297 (2009 £53,333)

Period ended 31 March	**2009 £million**	2008 £million
Sales	**28 41**	11 07
Profit before tax	**0 44**	0 32
Retained profits	**0 33**	0 14
Net assets	**1 10**	0 52

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 the supply of residential and care homes to 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 services provided to both the education and home care sectors

Deep-Secure Ltd

Reading
www deep-secure com

Cost	£1,000,000
Valuation	£1,000,000
Date of Investment	December 2009
Equity held	12 86%
Valuation basis	Price of recent investment, reviewed for impairment
Interest	£16,570 (2009 £nil)

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 security via high defence 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

FUND MANAGER'S REVIEW

Adex Bridge Investments Limited

Midlands

Cost	£1 000,000
Valuation	£1,000,000
Date of Investment	March 2010
Equity held	50 00%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for Adex Bridge Investments Limited is not yet due

Adex Bridge was formed to support investments in SME businesses whose performance needs to be improved With a successful turnaround record and an extensive network of trusted business contacts this business is particularly focused on the Midlands region With links to banks and other chargeholders the business is well-placed to expand its activities in the turnaround sector

4G Capital Limited

North West

Cost	£1,000,000
Valuation	£1,000,000
Date of Investment	March 2010
Equity held	50 00%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for 4G Capital Limited is not yet due

4G Capital is a company specialising in software led by an experienced entrepreneur in this sector With significant experience of running software businesses and developing teams and business strategies the business has identified the opportunity to fund more traditional software companies to transition to providing web-based services

North Western Investments Limited

North West

Cost	£1,000,000
Valuation	£1,000,000
Date of Investment	February 2010
Equity held	50 00%
Valuation basis	Price of recent investment, reviewed for impairment

The first set of audited financial statements for North Western Investments Limited is not yet due

North Western Investments has significant contacts across the North West of England which makes it well-placed to expand its activities which are principally focused on acquiring and improving under performing businesses

FUND MANAGER'S REVIEW

Connaught plc

Sidmouth
www connaught plc uk

Cost	£90,710
Valuation	£785,668
Dates of Investment	Nov 1998, Jun 1999, Jan 2001, Mar, Jun, Sept and Nov 2005, Mar, Oct, Nov and Dec 2006, Jan, Jul and Oct 2007, Mar 2008
Equity held	0 23%
Valuation basis	Quoted bid price
Dividends received	£10,068 (2009 £8,538)

Year ended 31 August	**2009** **£million**	2008 £million
Sales	**659 6**	552 9
Profit before tax	**26 7**	21 7
Retained profits	**51 9**	37 9
Net assets	**167 5**	126 8

Connaught operates as a facilities management and integrated property services group, engaged in building maintenance electrical and compliance work, primarily in the social housing sector Connaught's listing was transferred to the main market in November 2006, although the investment remains VCT qualifying for a period of five years from that transfer Half year results to 28 February 2010 show turnover up 17% to £355 million and pre-tax profits down 21% to £10 7 million (including an exceptional charge of £5 8 million) Despite recent announcements relating to contract reductions as a result of public expenditure reductions the Board believes the business continues to perform well and the outlook for the Group remains robust Expectations for revenue and earnings for the current and next financial year have been revised to reflect caution over the delays and reductions affecting certain capital projects within the Social Housing division

Fishawack Limited

Knutsford
www fishawack com

Cost	£618 000
Valuation	£709,000
Dates of Investment	January 2008 and December 2009
Equity held	6 88%
Valuation basis	Earnings multiple
Interest	£44,100 (2009 £13,858)

Fishawack Limited has a small company exemption from filing full consolidated financial statements at Companies House

Fishawack is an established, specialist healthcare communications agency focusing on the medical sector, with a strong reputation for providing specialist support for many of the world's top global pharmaceutical companies In December 2009 Fishawack acquired its US partner to increase its international reach and customer service capacity Fishawack continues to seek further sales growth, both organically and through acquisition

Hargreaves Services plc

Esh Winning, Durham
www hargreavesservices co uk

Cost	£468,550
Valuation	£614,295
Dates of Investment	December 2007, January, February and March 2008
Equity held	0 35%
Valuation basis	Quoted bid price
Dividends received	£11,594 (2009 £10,098)

Year ended 31 May	**2009** **£million**	2008 £million
Sales	**503 09**	404 90
Profit before tax	**26 17**	17 86
Retained profits	**35 79**	20 43
Net assets	**71 67**	41 83

In the years following its founding in 1994 Hargreaves established itself as the largest independent bulk haulage company in Britain The group has a national network of depots and facilities and specialises in supplying and processing carbon-based minerals It has recently expanded into mainland Europe as well as operating a colliery and coke plant Results for the year ended 31 May 2010 are in line with expectations, which is the fifth consecutive year that Earnings Per Share have increased at a rate exceeding 20% per annum

FUND MANAGER'S REVIEW

Lightmain Company Limited

Rotherham
www lightmain co uk

Cost	£600,000
Valuation	£600,000
Date of Investment	March 2010
Equity held	30 00%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 30 September	2009 £million	2008 £million
Retained profits	**0 96**	0 90
Net assets	**0 96**	0 90

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

Lightmain is a manufacturer and installer of playground equipment and multi-user games areas across the UK The business has a reputation for quality and an established customer base which provides good visibility of forward orders

Pressure Technologies plc

Sheffield
www pressuretechnologies co uk

Cost	£425,421
Valuation	£579,000
Dates of Investment	June and July 2007
Equity held	2 50%
Valuation basis	Quoted bid price
Dividends received	£18,707 (2009 £17,006)

Year ended 3 October	2009 £million	2008 £million
Sales	**26 19**	23 66
Profit before tax	**5 05**	5 01
Retained profits	**8 21**	5 26
Net assets	**14 11**	11 17

Pressure Technologies was admitted to the Alternative Investment Market 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 Results for the year to 3 October 2009 show turnover up 10 7% on the previous year and pre-tax profit unchanged With a strong balance sheet the company is well positioned to manage the cyclical nature of the Group's core business

Mattioli Woods plc

Leicester
www mattioli-woods com

Cost	£325,922
Valuation	£554,877
Dates of investment	November 2005, February, March, October 2006 and July 2007
Equity held	1 42%
Valuation basis	Quoted bid price
Dividends received	£10,358 (2009 £7,768)

Year ended 31 May	2009 £million	2008 £million
Sales	**13 28**	10 83
Profit before tax	**3 90**	3 51
Retained profits	**8 06**	5 88
Net assets	**16 46**	14 03

Mattioli Woods provides pensions consultancy and administration services primarily to owner-managers, senior executives and professional persons The Group's key activities include complex pensions consultancy, the provision of Self-Invested Personal Pensions ("SIPP") and Small Self-Administered Pension Schemes (SSAS") Interim results to 30 November 2009 reported a decrease in revenue of 3 8% to £6 59 million and an increase in EBITA of 1 4% to £2 16 million The company's fee-driven model means it is well positioned for regulatory changes Results for the year ended 31 May 2010 are in line with the Board's expectations

FUND MANAGER'S REVIEW

Harvey Jones Holdings Limited

London
www harveyjones com

Cost	£777 143	Year ended 31 December	**2009 £million**	2008 £million
Valuation	£417,000			
Date of investment	May 2007	Sales	**8 63**	9 59
Equity held	6 88%	(Loss) profit before tax	**(0 37)**	0 20
Valuation basis	Earnings multiple	Retained profits	**–**	0 33
Interest	£70,182 (2009 £67,581)	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 wealthy provincial towns 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 to be well positioned to benefit as market conditions improve

RMS Group Holdings Limited

Goole
www rms-europe co uk

Cost	£990 044	Year ended 31 December (2007 8 months)	**2009 £million**	2008 £million
Valuation	£383 000			
Dates of Investment	July 2007 August 2008	Sales	**24 0**	31 40
Equity held	8 82%	Profit before tax	**0 70**	-
Valuation basis	Earnings multiple	Retained losses	**0 40**	(0 40)
Interest	£97,656 (2009 £98,825)	Net assets	**5 43**	5 16

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 overall commodity movements the financing structure has been defensively constructed and the team have used the tough economic conditions to consolidate their market position Following the election of the Coalition government, their comments in respect of retrospective charging of rates (for which RMS has fully accounted) suggest that a more beneficial position for ports businesses will be taken

K3 Business Technology Group plc

Colne
www k3btg com

Cost	£402,094	Year ended 31 December	**2009 £million Unaudited**	2008 £million
Valuation	£378,126			
Date of investment	April 2008			
Equity held	1 17%	Sales	**39 46**	37 62
Valuation basis	Quoted bid price	Profit before tax	**4 04**	3 94
Dividends received	£1,500 (2009 £nil)	Retained profits	**10 74**	7 87
		Net assets	**31 64**	27 87

K3 has changed its year end from 31 December to 30 June and thus the next set of audited accounts will cover the 18 months to 30 June 2010

K3 provides software-based supply chain management solutions to the manufacturing and retail sectors The interim results for the twelve months to 31 December 2009 show that sales increased by 4 9% to £39 46 million and profit before tax increased by 2 5% to £4 04 million as the manufacturing sector showed signs of recovery and online retail continued to grow

FUND MANAGER'S REVIEW

Primal Pictures Limited

London
www primalpictures com

Cost	£478,295
Valuation	£345,295
Date of investment	March 2001
Equity held	3 72%
Valuation basis	Earnings multiple

Year ended 31 December	2008 £million	2007 £million
Sales	**2 54**	2 15
Profit before tax	**0 30**	0 01
Retained losses	**(4 76)**	(5 31)
Net liabilities	**(1 38)**	(1 93)

Primal Pictures has developed a complete range of high quality anatomical CD-ROMs aimed at healthcare professionals, ranging from medical students to orthopaedic surgeons Images derived from X-ray, magnetic resonance and other scan data have enabled the production of a completely authentic anatomical model of the human body The company has significantly expanded its business development activities to a range of healthcare and education markets, also developing recurring licence revenues from reseller partners

Tikit Group plc

London
www tikit com

Cost	£226,009
Valuation	£290,157
Dates of investment	June 2001, March and November 2006, January and April 2007
Equity held	1 33%
Valuation basis	Quoted bid price
Dividends received	£11,763 (2009 £10,097)

Year ended 31 December	2009 £million	2008 £million
Sales	**25 20**	28 47
Profit before tax	**2 47**	3 49
Retained profits	**8 13**	7 05
Net assets	**15 18**	14 25

Tikit Group is a provider of consultancy services and software solutions principally to the IT departments of top law firms The company provides a range of document and knowledge management tools to the majority of the top 50 UK legal practices Revenues in 2009 suffered from the deferral of capital projects by clients in the current economic environment However, the implementation of a successful restructuring of the business has produced recurring annual cost savings of £1 million and significantly improved margins in the second half

Straight plc

Leeds
www straight co uk

Cost	£301,236
Valuation	£285,719
Dates of investment	February 2004, January, March and November 2005 and May 2006
Equity held	2 54%
Valuation basis	Quoted bid price
Dividends received	£13,994 (2009 £8,746)

Year ended 31 December	2009 £million	2008 £million
Sales	**28 32**	25 44
Profit (loss) before tax	**1 56**	(0 97)
Retained profits	**2 87**	2 09
Net assets	**9 70**	8 92

Straight supplies predominantly plastic container solutions manufactured from recycled materials The company's products are utilised for the collection, storage or transportation of source separated waste The preliminary results for the year to 31 December 2009 show an increase in sales of 11 3% to £28 32 million and a pre-tax profit of £1 56 million with the Company having restructured its loss making retail division

FUND MANAGER'S REVIEW

Ellfin Home Care Limited

Oldham

Cost	£769,000
Valuation	£211,000
Dates of investment	December 2007 and October 2008
Equity held	11 40%
Valuation basis	Earnings multiple
Dividend received	£2,233 (2009 £nil)
Interest	£71,543 (2009 £35,313)

12 months ended 31 October (2008 11 months)	**2009 £million**	2008 £million
Sales	**4 36**	3 06
(Loss) profit before tax	**(0 02)**	0 16
Retained profits	**(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

Patsystems plc

London
www patsystems com

Cost	£222,002
Valuation	£184,722
Dates of investment	October 2007 and March 2008
Equity held	0 44%
Valuation basis	Quoted bid price
Dividends received	£5,435 (2009 £2,759)

Year ended 31 December	**2009 £million**	2008 £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 develops trading and risk management systems for derivatives traders Results for 2009 show revenue up 13% to £22 1 million and pre-tax profit increased by 117% to £4 49 million despite the loss of Lehman Brothers Sales in developing markets were particularly encouraging

Brulines plc

Stockton-on-Tees
www brulines com

Cost	£162,530
Valuation	£165,125
Dates of investment	October 2006 and July 2007
Equity held	0 47%
Valuation basis	Quoted bid price
Dividends received	£10,402 (2009 £6,737)

Year ended 31 March	**2010 £million**	2009 £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 volume and revenue 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 The results to March 2010 show an increase in turnover of 4% to £19 83 million and a 12 6% decrease in pre-tax profit to £4 04 million (including exceptional restructuring costs of £0 5 million), as the company continued to expand in the related petrol forecourt services arena Dividend yield remains strong

FUND MANAGER'S REVIEW

Darwin Rhodes Group Limited

London
www darwinrhodes com

Cost	£443,925
Valuation	£105,000
Date of investment	April 2008
Equity held	6 06%
Valuation basis	Earnings multiple

Period ended 31 March	2009 £million	2008 £million (restated)
Sales	**8 36**	8 72
(Loss) profit before tax	**(1 37)**	0 59
Retained (losses) profits	**(1 32)**	0 05
Net assets	**3 85**	4 42

Darwin Rhodes is an international recruitment firm specialising in the actuarial, insurance and compliance markets Whilst there have been signficant pressures on the financial services sector, the absence of financial gearing and breadth of Darwin Rhodes' activities both in terms of sectors and geographic diversity are assisting in managing these pressures The Company's investment has been structured as all equity and in addition Darwin Rhodes has no bank debt, and this structure has afforded the business sufficient financial headroom in a challenging trading period

Harris Hill Holdings Limited

Kingston-Upon-Thames
www harrishill co uk

Cost	£600 000
Valuation	£100 000
Date of investment	June 2007
Equity held	10 71%
Valuation basis	Earnings multiple
Interest	£nil (2009 £1,922)

Period ended 31 March	2009 (12 months) £million	2008 (13 months) £ million
Sales	**3 89**	3 26
Loss before tax	**(0 76)**	(0 58)
Retained losses	**(1 34)**	(0 58)
Net liabilities	**(0 86)**	(0 98)

Harris Hill is a niche recruitment business with a strong reputation for providing excellent permanent and temporary recruitment solutions to the charity and not for profit sectors Whilst market conditions have been difficult over recent months at the level of earnings before interest, tax and amortisation the business has remained profitable and well placed for a recovery

Belgravium Technologies plc

Bradford
www belgravium com

Cost	£200,000
Valuation	£41,000
Date of investment	October 2005
Equity held	1 42%
Valuation basis	Quoted bid price
Dividends received	£nil (2009 £5,429)

Year ended 31 December	2009 £million	2008 £million
Sales	**8 29**	8 33
Profit before tax	**0 41**	0 40
Retained losses	**(0 44)**	(0 88)
Net assets	**9 63**	9 20

Belgravium is a computer design and manufacturing company, specialising in mobile computers for the logistics, fuel and aviation markets The Company invested to support the acquisition of the complementary Touchstar Technologies Belgravium's results for 2009 show that the Company broadly maintained turnover and pre-tax profits in line with 2008 levels in what remain difficult markets, particularly in aviation Belgravium met its strategic business objectives whilst delivering a profit in line with market expectations and reduced net debt

Freshroast Coffee Co Limited

Elland

Cost	£5,271
Valuation	£30,000
Date of investment	July 1996
Equity held	12 97%
Valuation basis	Earnings multiple

Year ended 31 December	2008 £million	2007 £million
Retained profits	**0 14**	0 21
Net assets	**0 34**	0 42

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

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

Denison Mayes Group Limited

Leeds
www denisonmayesgroup com

Cost	£25,000
Valuation	£25 000
Date of investment	August 1998
Equity held	–
Valuation basis	Price of recent investment, reviewed for impairment
Interest	£825 (2009 £3,363)

As at 30 June	2009 £million	2008 £million
Retained losses	**(0 59)**	(0 74)
Net liabilities	**(0 04)**	(0 19)

Denison Mayes Group Limited has a small company exemption from filing full audited financial statements at Companies House

Denison Mayes' primary activity is the servicing and calibration of a wide range of materials testing equipment used in the engineering and academic market An agreement was reached to sell the equity stake in this company back to management in September 2001 Your Company has a residual loan of £25,000 remaining

Cambridge Cognition Limited

Cambridge
www camcog com

Cost	£325,000
Valuation	£Nil
Date of investment	May 2002
Equity held	3 86%
Valuation basis	Price of recent investment, reviewed for impairment

Year ended 31 December	2008 £million	2007 £million
Sales	**2 14**	1 99
Loss before tax	**(1 09)**	(0 96)
Retained losses	**(6 39)**	(5 30)
Net assets	**(0 28)**	0 62

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental conditions It raised £1 5 million in January 2008, from a range of investors, to assist with commercialising its intellectual property The company has restructured and trading is much improved in recent months

FUND MANAGER'S REVIEW

Introduction

In spite of difficult market conditions, this year has seen strong progress made by several portfolio businesses and realisations at values in excess of the carrying value

GO Outdoors has continued its store roll out programme, now having twenty-three stores across the UK and capitalising on weak property markets to secure good lease terms on new facilities Other progress includes growth in both the education and care home divisions of Waterfall Services and a repositioning of Primal Pictures as a provider of education materials rather than a reference source

A further investment was made into Fishawack to support the acquisition of its US partner as part of the strategy to build a diversified international business The new investment into Deep-Secure enabled us to back a strong team who we have worked with before in a sector which should now see significant growth Lightmain has a stable profit stream with growth plans underpinned by orders from a charitable trust The Company also made three other investments (Adex Bridge Investments, 4G Capital and North Western Investments) where the management teams have also been known to the Fund Manager

The sale of the Company's holding in Sheet Piling during the year enabled the Company to achieve a good profit over cost and carrying value

Cash and gilt investments at 31 March 2010 were £11 56 million representing 39 9% of net assets This compares to £16 15 million and 61 2% at 31 March 2009 A further £1 94 million was received after the year end in respect of the successful fundraising Offers providing additional liquidity and the Company remains in a strong cash position to meet anticipated future investment opportunities and pay dividends in the year ahead

Investment Activity

During the year investments were made in six companies

	£000
Follow-on Investments	
Fishawack Limited	118
New Investments	
Deep-Secure Limited	1,000
Adex Bridge Investments Limited	1,000
4G Capital Limited	1,000
North Western Investments	1,000
Lightmain Company Limited	600
Total	**4,718**

Although it has been difficult to find good opportunities to invest during 2009, there are encouraging signs that this position is improving with Deep-Secure and Fishawack completing in December and the remaining four investments since the New Year

It is encouraging that there has not been a significant need for further funding into the portfolio during the economic downturn We will continue to invest into the portfolio where we see good opportunities for value growth either via the provision of working capital funding portfolio businesses to make acquisitions or enabling a restructuring of existing stakeholders

Realisations

In March 2010, the Company realised its entire holding in Sheet Piling (UK) Limited This deal generated proceeds to the Company of £1 29 million, an uplift over carrying value at 31 March 2009 of £0 54 million and over original cost of £1 18 million This equates to an IRR of 20 18% and a cash multiple of 3 7x over the nine year life of this investment

In December 2009, the Company sold its remaining investment in Images at Work Limited for £0 05 million to a trade buyer prepared to fund essential working capital requirements, crystallising a loss of £0 08 million compared to the carrying value at 31 March 2009

In March 2010 a £0 50 million payment was made by Primal Pictures Limited from its growing surplus cash balance to partially redeem institutional preference shares and associated redemption premiums, of which the Company received £0 06 million

Portfolio Performance

Whilst this year has undoubtedly produced a number of challenges in terms of trading the portfolio as a whole has generally proved resilient There is limited financial gearing across the portfolio businesses and in the main businesses are well funded going into the year ahead We have seen some progress through increases in earnings from a number of investments in spite of the global recession In a number of cases there has been pressure on profitability which has currently reduced valuations However should these investments continue to be resilient profitability levels could well recover in line with economic conditions

There has been an overall increase in the value of the quoted and unquoted portfolio of £3 83 million and adding the realised gains of £0 49 million this is equivalent to 44 5% of the opening value of the opening portfolio value at 31 March 2009

This valuation gain is split between the quoted and unquoted portfolio as follows

	£000	%
Unquoted	3,242	32 0
Quoted	587	17 8

By far the biggest valuation movement in the year was due to GO Outdoors, where growth of £3 32 million was experienced Waterfall Services Limited also saw value growth of £0 35 million However these gains were partially offset by a value fall of £0 61 million on Elfin Home Care Limited where actions are being taken to reverse the underperformance versus original plans The quoted portfolio benefited from an improvement in market confidence with growth of £0 25 million from Hargreaves Services plc, £0 20 million from K3 Business Technology Group plc and £0 16 million from Straight plc only partially offset by a drop of £0 18 million from Connaught plc

FUND MANAGER'S REVIEW

In accordance with IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies This indicated that a 10% decrease in the discounts applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £1 110 000 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 £1,110,000 Further information is given in note 19a

Summary and Outlook

The year under review has seen challenging market conditions for the entire portfolio We have been actively supporting the investee companies through these challenges and are pleased to still show a strong level of value growth and profit on disposals during the year

The Company's cash reserves remain strong and we are optimistic that the coming year will see improving market conditions for the portfolio as well as generating some good opportunities for new investment The Company remains well placed to meet the upcoming investment needs and maximise opportunities which arise

David Hall
YFM Private Equity Limited
24 June 2010

VALUATION OF INVESTMENTS

Initial Measurement

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

Subsequent Measurement

The International Private Equity and Venture Capital (IPEVC) Valuation Guidelines ("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 impairment 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 impairment

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

Unquoted investments held in the form of loan investments are valued at fair value using the appropriate methodologies as used for valuing equity investments 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

Helen Sinclair – Chairman (44)

Starting in investment banking, Helen spent nearly 8 years at 3i plc focusing on MBO and growth capital investments She later co-founded Matrix Private Equity raising a successful technology fund, the Matrix Venture Fund VCT plc She subsequently became Managing Director of Matrix Private Equity before moving to take on a portfolio of Non Executive Director roles in 2005 She is currently a Non Executive Director of The Income & Growth VCT plc and Matrix Income & Growth 4 VCT plc, and a Director of Spark Ventures plc

Philip Simon Cammerman (68)

Has over 20 years of industrial experience in engineering and technology orientated industries and has worked in both the USA and the UK He has spent the last 25 years in the venture capital industry and was Chairman of YFM Private Equity Limited and a director of YFM Group (Holdings) Limited until he retired in April 2008 He has been responsible for a wide range of venture capital deals in a variety of industries including software, computer maintenance, engineering, printing, safety equipment, design and textiles He is a Non Executive Director of British Smaller Technology Companies VCT 2 plc and Pressure Technologies plc He has been a director of the Company since its establishment as a venture capital trust

Richard Last (52)

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) and of British Smaller Technology Companies VCT 2 plc which is listed on the London Stock Exchange 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 companies Sphinx CST Limited and APD Communications Limited He is Non Executive Chairman of CSE Global UK Limited, a subsidiary of a Singapore Stock Exchange listed company and Chairman, Non Executive Director and shareholder of Documetric Limited, a private UK services company

Robert Martin Pettigrew (65)

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) He is also a Non Executive Director of British Smaller Technology Companies VCT 2 plc

Secretary and Registered Office

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

Registered No 3134749

DIRECTORS' REPORT

For the Year Ended 31 March 2010

The directors present their report and audited accounts of British Smaller Companies VCT plc ("the Company") for the year ended 31 March 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 Chapter 3 part 6 of the Income Tax Act 2007 It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Chapter 3 part 6 of the Income Tax Act 2007

Business Review

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

Principal Risks, Risk Management and Regulatory Environment

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

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

Loss of approval as a Venture Capital Trust – The Company must comply with Chapter 3 part 6 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period having to repay the income tax relief they obtained and future dividends paid by the Company becoming subject to tax The Company would also lose its exemption from corporation tax on capital gains As such one of the Key Performance Indicators monitored by the Company is the compliance with legislative tests See below for more detail

Regulatory – the Company is required to comply with the Companies Acts, the rules of the UK Listing Authority, 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 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 rigorously applies 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 pages 26 to 29 and further information on exposure to risks associated with financial instruments is given in note 19

Key Performance Indicators

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

Total Return

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

DIRECTORS' REPORT

The chart showing the Total Return of the Company is included within the financial summary on page 4 An additional table analysing total return by each Fundraising of the Company has been added and can be found on page 5

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

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status Under Chapter 3 part 6 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 five further tests that VCTs must meet on a continuing basis following the initial three year provisional period

Income Test
The Company's income in the period must be derived wholly or mainly from shares or securities The Company complied with this test in the period, with 95 3% (2009 95 9%) of income being derived from such sources

Retained Income Test
The Company must not retain more than 15% of its income from shares and securities The Company complied with this test in the period, with 100% (2009 100%) of income being distributed in the period

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 The Company complied with this test with 76 6% (2009 80 8%) of value being in qualifying holdings

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 The Company complied with this test with 53 4% (2009 69 7%) of qualifying holdings being held in such shares

Maximum Single Investment Test
The value of any one investment has not at any time in the period, 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 Company has complied with this test with the highest such value being 5 5% (2009 5 3%)

The Board received 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 for the year is set out on page 34 The profit after taxation for the year amounted to £4,202,000 (2009 loss of £3,266,000)

Following the publication of the Company's interim financial results, a 2 0 pence per Ordinary share interim dividend (2009 2 0 pence) was paid on 7 January 2010 to Shareholders on the register at 4 December 2009

The directors recommend the payment of a final dividend of 3 0 pence per Ordinary share (2009 3 0 pence) which will be paid on 28 September 2010 to Shareholders on the register on 3 September 2010 A resolution to this effect will be proposed at the Annual General Meeting to be held on 21 September 2010

In addition a special dividend of 1 25 pence per share will be paid to Shareholders following the profit generated from the sale of the Company's shares in Sheet Piling (UK) Limited

The Net Asset Value per share at 31 March 2010 was 94 4 pence (2009 85 7 pence) The transfer to and from reserves is given in the Statement of Changes in Equity on page 36

Share Capital

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

Issue and Buy-Back of Shares

The Company continues to operate a share buy-back policy to enable Shareholders to obtain some liquidity in an otherwise illiquid market where there is a need to dispose of their stock This policy is kept under review to ensure that any decisions taken are in the best interests of Shareholders as a whole In accordance with this policy the Company purchased during the year, under existing authority granted by the Shareholders, Ordinary shares of 10 pence each in the market (as disclosed in the table below) for aggregate consideration amounting to £244,174 These shares are held in treasury

Date	Number of Ordinary shares of 10p bought-back	% of Issued Share Capital at that date	Consideration paid per share
2 Jul 09	141 882	0 46%	73 0p
23 Dec 09	190,000	0 62%	74 0p

The directors have unconditional authority to allot, grant options over or offer new shares until 6 August 2014

Under existing authority, which expires on the 21 September 2010 the Company has the power to purchase shares up to 14 99% of the Company's issued share capital This authority is recommended for renewal at the Annual General Meeting

DIRECTORS' REPORT

In the year the Company allotted a further 244,184 shares in respect of its dividend reinvestment scheme Subsequent to the year end the Company issued 2,048 298 Ordinary shares under the offers for subscription and directors' authority for the tax years 2009/2010 and 2010/2011 that closed on 30 March 2010, raising gross funds of £1,944,000 Further information is given below under the heading "Events After the Balance Sheet Date"

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 and note 20 Each Ordinary share carries one vote There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights,
- there are no securities carrying special rights with regard to the control of the Company,
- the Company does not have an employee share scheme,
- the rules concerning the appointment and replacement of Directors amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006,
- there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid, and
- there are no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid

Trade Payables Payment Policy

The Company's payment policy is to agree terms of payment before business is transacted and to settle accounts in accordance with those terms Although the Company has no trade payables at the year end, the average number of payable days during the year was 23 (2009 17)

Fund Manager

The Board continues to keep under review a draft European Union directive concerning Alternative Investment Funds Insofar as the proposals affect the Company the directors will report further once the impact of the proposals is known

Environment

The management and administration of the Company is undertaken by its 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

Directors and their Interests

The directors of the Company at 31 March 2010, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 31 to 32

Substantial Shareholding

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

Independent Auditor

During the year PKF (UK) LLP resigned as auditor to the Company, and the directors appointed Grant Thornton UK LLP to fill the casual vacancy Grant Thornton UK LLP have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on page 54 of these financial statements

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

In addition the following resolution being a special resolution, is proposed as Special Business

The Board recommends the renewal of the existing share buy-back authority which expires on 21 September 2010 (shares purchased under this authority may be placed in Treasury) and the authority for this is contained in Special Resolution (1)

VCT Status Monitoring

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

Events After the Balance Sheet Date

On 4 March 2010 your Board published proposals offering existing investors the opportunity to subscribe for up to 2,050,000 new Ordinary shares in the Company at an offer price of 97 25 pence per share The Offer in respect of 2009/10 tax year opened and closed by 31 March 2010 As the Offer had closed by the year end, yet the fundraising proceeds could not be recognised as cash and cash equivalents until the shares were issued, the Company has recognised the monies to be received on issue of Ordinary shares within debtors on the balance sheet while the capital to be issued, being proceeds less associated fundraising costs, is reflected within creditors

DIRECTORS' REPORT

On 1 April 2010 the Company issued 1,784,967 Ordinary shares at a price of 97 25 pence per share in respect of the tax year 2009/10 Offer On 6 April 2010 and 22 June 2010 the Company issued a further 263,254 and 77 Ordinary shares respectively in respect of the tax year 2010/11, again at a price of 97 25 pence per share In aggregate these three issues of shares raised £1 94 million before expenses

There have been two follow-on venture capital investments made following the year end

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 The financial statements are required to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make 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 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 yfmprivateequity 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 or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's 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 a description of the principal risks and uncertainties that they face

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, those relating to the establishment of an independent Remuneration Committee, the Chairman acting as chairman of the Audit Committee, and the presumption concerning her independence

Role of the Board

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

The Board meets at least 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

DIRECTORS' REPORT

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 four non executive directors, all of whom are regarded by the Board as independent and all of whom are regarded as independent of the Company's Fund Manager including the Chairman, save that the attention of Shareholders is drawn to the final paragraph of this section The independence of the Chairman was assessed on her appointment as a director in March 2008 Although the Combined Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in this Company, are satisfied that Ms H Sinclair fulfills 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 22

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 has considered the implications of new Listing Rules concerning directors' independence which will take effect in September 2010 and to ensure compliance with these rules, it has been agreed that Richard Last and Robert Pettigrew will stand down as directors at the conclusion of the Annual General Meeting Further changes to the composition of the Board will be announced in due course

Tenure

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

The Board seeks to maintain a balance of skills and the directors are satisfied that as currently composed the balance of experience and skills of the individual directors is appropriate for the Company in particular with regard to investment appraisal and investment risk management Individual biographies are at page 22 of this report

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

The directors recommend the re-election of Mr P S Cammerman who retires by virtue of service for more than 9 years because of his commitment, experience and contribution to the Company

Meetings and Committees

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

The table below details the number of Board, Audit and Allotment Committee meetings attended by each director During the year there were six formal Board meetings, two Audit Committee meetings, no Nomination Committee meetings and two Allotment Committee meetings The directors met via telephone conference on ten other occasions

Director	Board meetings attended	Audit Committee meetings attended	Allotment Committee meetings attended
H Sinclair	6	2	2
R Last	6	2	-
P S Cammerman	6	2	2
R M Pettigrew	6	2	-

Training and Appraisal

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

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

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

DIRECTORS' REPORT

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

The Chairman has confirmed that the performance of the director being proposed for election continues to be effective and that he continues to show commitment to the role An independent director has similarly appraised the performance of the Chairman taking account of the views of the directors He considered that the performance of Ms H Sinclair continues to be effective and that she 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 31 and 32

Audit Committee

The Audit Committee currently consists of Ms H Sinclair, Mr P S Cammerman and, until the Annual General Meeting on 21 September 2010 Mr R Last and Mr R M Pettigrew The Committee meets at least twice each year The directors consider that it is appropriate that the Chairman of the Committee should be Helen Sinclair The members of the Committee consider that they have the requisite skills and experience to fulfill the responsibilities of the Committee

The Audit Committee reviews the actions and 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 considers that the independence and objectivity of the auditors has not been impaired or compromised

As a consequence of these activities the Audit Committee recommends the appointment of Grant Thornton as independent auditor at the Annual General Meeting

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

Nomination Committee

The Company has a Nomination 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 Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board

Allotment Committee

The Company has an Allotment Committee which consists of the directors who are considered by the Board to be independent of the Fund Manager The quorum for Committee meetings is two directors, with the Company Secretary also in attendance

The Committee considers and, if appropriate, authorises the allotment of shares The Committee ensures that the total number of shares to be issued does not exceed the authority given by Shareholders

Relations with Shareholders

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

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

The directors may be contacted through the Company Secretary whose details are shown on page 22

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

DIRECTORS' REPORT

Internal Control

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

- a clearly defined investment strategy for YFM Private Equity Limited, the Fund Manager to the Company
- all decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Fund Manager
- regular reviews of the Company's investments liquid assets and liabilities and revenue and expenditure,
- regular reviews of compliance with the venture capital trust regulations to retain status,
- the Audit Committee reviews the internal control procedures adopted by the Fund Manager and the Board approves annual budgets prepared by the Fund Manager, 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 March 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 on-going process for identifying, evaluating and managing the significant risks faced by the Company This process has been in place for longer than the year under review and up to the date of approval of the Annual Report The process is formally reviewed bi-annually by the Board However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function This decision will be kept under review The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the 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 investee company performance in accordance with the best practice in the private equity sector

Going Concern

The Company s business activities, liquidity position and factors likely to affect its future development, performance and position are set out in the Chairman's Statement and Fund Manager's Review In addition notes 19 and 20 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

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 traditional industries with those that offer opportunities in the development and application of innovation

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

The Company funds its investment programme out of its own resources and has no borrowing facilities for this purpose The maximum that the Company may invest in any holding in any tax year is limited to £1 million and the average size of the Company's qualifying investment is £0 39 million (2009 £0 45 million) Details of

DIRECTORS' REPORT

the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this report

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

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

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

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

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

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 which is included within Cash and Cash Equivalents on the balance sheet

Financial Instruments

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

Financial Assets

Investments made in suitable qualifying holdings predominantly comprise Ordinary shares with in some instances, either fixed rate coupon preference shares, cumulative unsecured loan stocks or debenture loans Each investment is valued in accordance with the policy set out on page 21 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 gains on disposals of these investments are a medium to long-term aim

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

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

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

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

Details of financial assets held at 31 March 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 24 June 2010 and signed on its behalf by

Helen Sinclair
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 March 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 March 2010	Number of Ordinary shares at 31 March 2009
H Sinclair	**7,270**	7,270
P S Cammerman	**35,880**	35,880
R Last	**31,136**	31,136
R M Pettigrew	**28,159**	28,159

None of the directors have subscribed for further shares since the year end None of the directors held any option to acquire additional shares at any time during either year

Brief biographical notes on the directors are given on page 22 In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him or her to any benefit other than the remuneration disclosed below, and, save as described under Administration" below, no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business The Company does not offer compensation for loss of office when a director leaves Further information on contracts of service is given on page 27

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

Administration

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

Following approval of the relevant resolution at the Annual General Meeting of the Company held in August 2009 the incentive scheme set out in the Subscription Rights Agreement dated 28 February 1996 ('the Subscription Rights Agreement") was replaced by a revised Incentive Agreement dated 7 July 2009 ("the Incentive Agreement") Under the Incentive Agreement the Fund Manager will receive an incentive payment equal to 20% of the amount by which dividends paid in the relevant accounting period exceed 4 0 pence per share once cumulative dividends of 10 0 pence per share from 1 April 2009 have been paid These incentive payments are also subject to cumulative shortfalls in any prior accounting periods being made up and the average Net Asset Value per share in the relevant accounting period being not less than 94 0 pence per share

No payment can be made under the Incentive Agreement until the Net Asset Value of the Company has increased to 94 0 pence per share and in addition at least 10 pence per share in dividends has been paid to Shareholders Payment is made 5 business days after the relevant Annual General Meeting at which the audited accounts are presented to Shareholders

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

No entitlement has accrued to the Fund Manager in either year under the Incentive Agreement or the superseded Subscription Rights Agreement

Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £95,000 (2009 £84,821) all of which was paid to four (2009 six) individuals for services as directors and none of which was paid to third parties in respect of directors' services

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

	2010 £	2009 £
H Sinclair	**35,000**	27 877
R Last	**20,000**	16,429
R M Pettigrew	**20,000**	16,429
P S Cammerman	**20,000**	16,349
Sir A H Smith (resigned 6 Aug 2008)	**-**	5,238
S J Noar (resigned 30 Jun 2008)	**-**	2,499
	95,000	84 821

There are no executive directors (2009 none)

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

DIRECTORS' REMUNERATION REPORT

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

Performance Graphs

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

The first graph looks at the value, calculated by reference to the Net Asset Value 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 All-Share® Index over the same period The calculation assumes that any dividends have been paid and not reinvested in shares of the Company

The second graph displays the share price return from the date of flotation to 31 March 2010 compared to the FTSE All-Share® Index It shows that at 31 March 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 £184 compared with £156 if invested in the FTSE 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 Furthermore the calculation of share price return assumes that any dividends received have been reinvested in the Company's shares at the prevailing quoted share price at the end of the financial period to which the dividends relate

This report was approved by the Board on 24 June 2010 and signed on its behalf by

Helen Sinclair
Chairman

INDEPENDENT AUDITOR'S REPORT

To the Members of British Smaller Companies VCT plc

We have audited the financial statements of British Smaller Companies VCT plc for the year ended 31 March 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 auditors

As explained more fully in the Directors Responsibilities Statement set out on page 26, 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 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/UKP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2010 and of its profit 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 29, in relation to going concern and
- 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

Grant Thornton UK LLP

Craig Burton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
24 June 2010

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

	Notes	2010 Revenue £000	2010 Capital £000	2010 Total £000	2009 Revenue £000	2009 Capital £000	2009 Total £000
Gain on disposal of investments	7	–	357	357	–	110	110
Gains (losses) on investments held at fair value	7	–	3,606	3,606	–	(3,748)	(3 748)
Income	2	1,129	–	1,129	1,173	–	1,173
Administrative expenses							
Fund management fee		(136)	(407)	(543)	(164)	(494)	(658)
VAT recovery		–	–	–	83	189	272
Other expenses		(347)	–	(347)	(415)	–	(415)
	3	(483)	(407)	(890)	(496)	(305)	(801)
Profit (loss) before taxation		646	3,556	4,202	677	(3 943)	(3,266)
Taxation	4	(100)	100	–	(121)	121	–
Profit (loss) for the year attributable to equity Shareholders		546	3,656	4,202	556	(3,822)	(3,266)
Total comprehensive income for the year attributable to equity Shareholders		546	3,656	4,202	556	(3 822)	(3,266)
Basic and diluted earnings (loss) per share	6	1 77p	11 88p	13 65p	1 81p	(12 43)p	(10 62)p

The accompanying notes on pages 38 to 53 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 (IFRSs') The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts ('SORP') 2009 published by the Association of Investment Companies

BALANCE SHEET

At 31 March 2010

	Notes	2010 £000	2009 £000
Assets			
Non-current assets			
Investments		**17,256**	9,706
Fixed income government securities		**9,740**	12,455
Financial assets at fair value through profit or loss	7	**26,996**	22,161
Current assets			
Trade and other receivables	8	**319**	672
Fundraising amounts not yet received	18	**1,736**	–
Cash and cash equivalents	9	**1,820**	3,697
		3,875	4,369
Liabilities			
Current liabilities			
Trade and other payables	10	**(237)**	(130)
Fundraising accrual (net)	18	**(1,626)**	–
Net current assets		**2,012**	4,239
Net assets		**29,008**	26,400
Shareholders' equity			
Share capital	11	**3,212**	3,187
Share premium account		**15,398**	15,236
Capital redemption reserve		**221**	221
Treasury share reserve		**(1,175)**	(931)
Capital reserve		**93**	–
Investment holding gains (losses)		**1,558**	(1 389)
Special reserve		**2,408**	2,408
Retained earnings		**7,293**	7,668
Total Shareholders' equity		**29,008**	26,400
Basic and diluted Net Asset Value per Ordinary share	12	**94 4p**	85 7p

The accompanying notes on pages 38 to 53 are an integral part of these financial statements

The financial statements were approved and authorised for issue by the Board on 24 June 2010 and were signed on its behalf by

Helen Sinclair
Chairman

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Treasury share reserve £000	Capital reserve £000	Investment holding gains and (losses) reserve £000	Special reserve £000	Retained earnings reserve £000	Total equity £000
Balance at 31 March 2008	**2,642**	**10,502**	**221**	**(666)**	**847**	**2,543**	**2,408**	**7,701**	**26,198**
Revenue return for the year	–	–	–	–	–	–	–	*556*	*556*
Capital expenses	–	–	–	–	*(184)*	–	–	–	*(184)*
Loss on investments held at fair value	–	–	–	–		*(3,748)*	–	–	*(3,748)*
Realisation of prior year investment holding gains	–	–	–	–	*184*	*(184)*	–	–	–
Gain on disposal of investments in the year	–	–	–	–	*110*	–	–	–	*110*
Total comprehensive income for the year	–	–	–	–	110	(3 932)	–	556	(3,266)
Dividends	–	–	–	–	(957)	–	–	(589)	(1,546)
Purchase of own shares	–	–	–	(265)	–	–	–	–	(265)
Issue of Ordinary share capital	538	4,979	–	–	–	–	–	–	5,517
Issue of share capital on DRIS*	7	53	–	–	–	–	–	–	60
Issue costs of Ordinary shares	–	(298)	–	–	–	–	–	–	(298)
Balance at 31 March 2009	**3,187**	**15,236**	**221**	**(931)**	**–**	**(1,389)**	**2,408**	**7,668**	**26,400**
Revenue return for the year	–	–	–	–	–	–	–	*546*	*546*
Capital expenses	–	–	–	–	*(307)*	–	–	–	*(307)*
Gain on investments held at fair value	–	–	–	–		*3,606*	–	–	*3,606*
Realisation of prior year investment holding gains	–	–	–	–	*659*	*(659)*	–	–	–
Gain on disposal of investments in the year	–	–	–	–	*357*	–	–	–	*357*
Total comprehensive income for the year	–	–	–	–	709	2,947	–	546	4,202
Dividends	–	–	–	–	(616)	–	–	(921)	(1,537)
Purchase of own shares	–	–	–	(244)	–	–	–	–	(244)
Issue of share capital on DRIS*	25	162	–	–	–	–	–	–	187
Balance at 31 March 2010	**3,212**	**15,398**	**221**	**(1,175)**	**93**	**1,558**	**2,408**	**7,293**	**29,008**

The accompanying notes on pages 38 to 53 are an integral part of these financial statements

The treasury share reserve was created for the purchase of own shares The capital redemption reserve was created for the purchase and cancellation of own shares

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

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

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

The special reserve, capital reserve and retained earnings reserve are all distributable reserves These reserves total £9,794,000 (2009 £10,076,000) representing a decrease of £282,000 (2009 £880,000 decrease) during the year This change arises from the profit in the year of £4,202 000 (2009 £3,266,000 loss), an increase in the investment holding reserve of £2,947,000 (2009 £3,932,000 decrease) and dividends of £1,537,000 (2009 £1,546,000) The directors also take into account the level of the capital reserve when determining the level of dividend payments

* DRIS being the dividend reinvestment scheme

STATEMENT OF CASH FLOWS

For the year ended 31 March 2010

	Notes	2010 £000	2009 £000
Net cash inflow from operating activities	14	**654**	166
Cash flows used in investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(6,389)**	(6,714)
Proceeds from sale of financial assets at fair value through profit or loss	7	**5,517**	6,148
Net cash used in investing activities		**(872)**	(566)
Cash flows from financing activities			
Issue of Ordinary shares		**-**	5,436
Cost of Ordinary share issue		**(76)**	(244)
Purchase of own Ordinary shares		**(244)**	(339)
Dividends paid		**(1,339)**	(1,486)
Net cash (used in) from financing activities		**(1,659)**	3,367
Net (decrease) increase in cash and cash equivalents		**(1,877)**	2,967
Cash and cash equivalents at the beginning of the year		**3,697**	730
Cash and cash equivalents at the end of the year	9,15	**1,820**	3,697

The accompanying notes on pages 38 to 53 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Basis of Preparation

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

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 IFRSs, 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 The following new standards and amendments to standards are mandatory for the first time for the financial year commencing 1 April 2009

IAS 1 (revised) 'Presentation of Financial Statements' The Company has elected to present a single performance statement the Statement of Comprehensive Income As the change in accounting policy only impacts presentation aspects there is no impact on earnings per share

IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009 The amendment requires enhanced disclosures about fair value measurement and liquidity risk In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy Comparatives are not required

IFRS 8 'Operating Segments' The adoption of this standard has had no impact on the segmental information reported by the Company

The Company has adopted new accounting standards in the year as described above As the impact (if any) of these changes has been presentational only and therefore has not affected comparative amounts, no third balance sheet (which would show the position as at 31 March 2008) has been included within these financial statements

Other standards and interpretations which are effective for this financial period but are not currently relevant for the Company are IFRS 2 (amendment), IAS 23, IAS 32, IAS 39 and IFRICs 13 to 16

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 1, IFRS 2, IFRS 3, IFRS 5, IAS 1, IAS 24, IAS 27, IAS 32, IAS 38, IAS 39, IFRIC 14 and the issue of IFRS 9, IFRIC 9, IFRIC 17, IFRIC 18 and IFRIC 19 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 Statement of Comprehensive Income in accordance with IFRSs

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

Quoted investments are valued at market bid prices

Unquoted investments are valued in accordance with IAS 39 'Financial instruments Recognition and Measurement' and, where appropriate, the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines issued in September 2009 The investment valuations in the financial statements for the year ended 31 March 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 March 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 21

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies (continued)

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, it does not control any of the companies held as part of the investment portfolio It is not considered that any of the holdings represent investments in subsidiary undertakings

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

Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis using the effective interest rate over the life of the financial instrument Income which is not likely to be received within a reasonable period of time is reflected in the capital value of the investment

Expenses

Expenses are accounted for on an accruals basis Expenses are charged through the Revenue column of the Statement of Comprehensive Income, except for fund management fees Of these fees 75 per cent are instead allocated to the Capital column of the Statement of Comprehensive Income, to the extent that these relate to an enhancement in the value of the investments and in line with the Board s expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains

Tax relief is allocated to the capital reserve using a marginal rate basis

Capital Reserve

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

Investment Holding Gains and Losses

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 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 Chapter 3 Part 6 of the Income Tax Act 2007 no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises

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

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

Dividends Payable

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

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies (continued)

Segmental Reporting

Segmental reporting has been determined by the directors based upon the reports reviewed by the Board The directors are of the opinion that the Company has engaged in a single operating segment – investing in equity and debt securities within the United Kingdom – and therefore no reportable segmental analysis is provided

Critical Accounting Estimates and Judgements

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

The fair value of investments at fair value through 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	**78**	24
– Dividends from AiM quoted companies	**94**	77
	172	101
– Interest on loans to unquoted companies	**295**	274
– Fixed interest Government securities	**609**	748
Income from investments held at fair value through profit or loss	**1,076**	1 123
Interest on VAT recovered in 2009	**16**	–
Interest on deposits	**37**	50
	1,129	1,173

3. Administrative Expenses

	2010 £000	2009 £000
Fund management fee (including irrecoverable VAT to 30 September 2008)	**543**	658
VAT recoverable	**–**	(272)
Other expenses		
Administration fee (including irrecoverable VAT to 30 September 2008)	**49**	53
Directors' remuneration	**95**	85
Auditors' remuneration – audit fees	**18**	18
General expenses	**185**	259
	890	801

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

The key features of the agreement are

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2% of gross assets less current liabilities calculated at half-yearly intervals as at 31 March and 30 September The fund management fee is allocated between the capital reserve and revenue account as described in note 1
- Under this same agreement YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee based on £35,000 (at 28 February 1996) per annum plus annual adjustments to reflect movements in the Retail Prices Index This fee is charged fully to the revenue account

NOTES TO THE FINANCIAL STATEMENTS

3. Administrative Expenses (continued)

The total remuneration payable to YFM Private Equity Limited in the year was £592,000 (2009 £711,000 which includes irrecoverable VAT to 30 September 2008)

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 31 under the heading "Basic Remuneration"

Following approval of the relevant resolution at the Annual General Meeting of the Company held in August 2009 the incentive scheme set out in the Subscription Rights Agreement dated 28 February 1996 ("the Subscription Rights Agreement") was replaced by a revised Incentive Agreement dated 7 July 2009 ("the Incentive Agreement) Under the Incentive Agreement the Fund Manager will receive an incentive payment equal to 20% of the amount by which dividends paid in the relevant accounting period exceed 4 0 pence per share once cumulative dividends of 10 0 pence per share from 1 April 2009 have been paid These incentive payments are also subject to cumulative shortfalls in any prior accounting periods being made up and the average Net Asset Value per share in the relevant accounting period being not less than 94 0 pence per share

No payment can be made under the Incentive Agreement until the Net Asset Value of the Company has increased to 94 0 pence per share and in addition at least 10 pence per share in dividends has been paid to Shareholders Payment is made 5 business days after the relevant Annual General Meeting at which the audited accounts are presented to Shareholders

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

No entitlement has accrued to the Fund Manager in either year under the Incentive Agreement or the superseded Subscription Rights Agreement

4. Taxation

		2010			2009	
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Profit (loss) before taxation	**646**	**3,556**	**4,202**	677	(3 943)	(3 266)
Profit (loss) before taxation multiplied by standard small company rate of corporation tax in UK of 21% (2009 21%)	**136**	**746**	**882**	142	(828)	(686)
Effect of						
UK dividends received	**(36)**	**-**	**(36)**	(21)	–	(21)
Non taxable (profits) losses on investments	**-**	**(832)**	**(832)**	–	764	764
Excess management expenses	**-**	**(14)**	**(14)**	–	(57)	(57)
Tax charge (credit)	**100**	**(100)**	**-**	121	(121)	-

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

Deductible temporary differences for which no deferred tax asset has been recognised amount to £270,000 calculated at 21% (2009 £284,000 calculated at 21%) in respect of unrelieved management expenses These have not been recognised as management do not currently believe that it is probable that sufficient taxable profits will be available against which the assets can be recovered

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

NOTES TO THE FINANCIAL STATEMENTS

5. Dividends

Amounts recognised as distributions to equity holders in the year

	2010 Revenue £000	2010 Capital £000	2010 Total £000	2009 Revenue £000	2009 Capital £000	2009 Total £000
Interim dividend for the year ended 31 March 2010 – 2 0p per Ordinary share, paid 7 January 2010 (2009 2 0p per Ordinary share)	**–**	**616**	**616**	–	615	615
Final dividend for the year ended 31 March 2009 – 3 0p per Ordinary share, paid 13 August 2009 (2008 3 0p per Ordinary share)	**921**	**–**	**921**	589	342	931
	921	**616**	**1,537**	589	957	1,546

The interim dividend of 2 0 pence per share was declared on 20 November 2009 and paid on 7 January 2010 to Shareholders on the register at 4 December 2009

A final dividend of 3 0 pence per share in respect of the year to 31 March 2010, amounting to £983,000, is proposed This has not been recognised in the year ended 31 March 2010 as the obligation did not exist at the balance sheet date

A special dividend of 1 25 pence per share is to be paid on 28 September 2010 to Shareholders following the profit generated from the sale of Sheet Piling (UK) Limited in March 2010

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

The basic and diluted earnings (loss) per Ordinary share is based on the profit after tax attributable to equity Shareholders of £4,202,000 (2009 £3,266,000 loss) and 30,774 418 (2009 30,760,716) 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 revenue profit for the year attributable to equity Shareholders after tax of £546,000 (2009 £556,000) and 30,774,418 (2009 30,760,716) 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 profit for the year after tax attributable to equity Shareholders of £3 656,000 (2009 £3,822,000 loss) and 30 774,418 (2009 30,760,716) shares being the weighted average number of shares in issue during the year

During the year the Company issued 244,184 Ordinary shares The Company also repurchased 331 882 of its own shares, which are held in treasury

The 1,382,837 treasury shares have been excluded in calculating the weighted average number of Ordinary shares during the year (2009 1,050 955) The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted (loss) earnings per share are the same

After the year end the Company issued 2,048,298 Ordinary shares (note 18) If these shares had been issued on 31 March 2010 the weighted average number of shares in issue during the year would have been 30,780,030 and there would have been no change in the basic and diluted earnings per Ordinary share figures shown at the foot of the Statement of Comprehensive Income

NOTES TO THE FINANCIAL STATEMENTS

7. Financial Assets at Fair Value Through Profit or Loss

Effective from 1 January 2009 the Company adopted the amendment to IFRS 7 regarding financial instruments that are measured in the balance sheet at fair value this 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 holds 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 profit and loss

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 March 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	4,531	3,939	3 427	**11,897**	11,896	**23,793**
Opening valuation (loss) gain	(918)	(1,138)	(135)	**(2,191)**	559	**(1,632)**
Opening fair value at 1 April 2009	**3,613**	**2,801**	**3,292**	**9,706**	**12,455**	**22,161**
Additions at cost	479	4,239	–	**4,718**	1 671	**6,389**
Disposal proceeds	(1,432)	(56)	–	**(1,488)**	(4,029)	**(5,517)**
Net profit (loss) on disposal	491	–	–	**491**	(134)	**357**
Change in fair value on assets held at 31 March 2010	3,578	(336)	587	**3,829**	(223)	**3,606**
Closing fair value at 31 March 2010	**6,729**	**6,648**	**3,879**	**17,256**	**9,740**	**26,996**
Closing cost	4 583	8 122	3,427	**16,132**	9,548	**25,680**
Closing valuation gain (loss)	2,146	(1,474)	452	**1,124**	192	**1,316**
Closing fair value at 31 March 2010	**6,729**	**6,648**	**3,879**	**17,256**	**9,740**	**26,996**

NOTES TO THE FINANCIAL STATEMENTS

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

Movements in investment at fair value through profit or loss during the year to 31 March 2009 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	4,139	3,661	3,037	**10,837**	11,436	**22,273**
Opening valuation gain	585	–	1,525	**2,110**	190	**2,300**
Opening fair value at 1 April 2008	**4,724**	**3,661**	**4,562**	**12,947**	**11,626**	**24,573**
Additions at cost	391	322	402	**1,115**	5,599	**6,714**
Disposal proceeds	(138)	(44)	(158)	**(340)**	(5,148)	**(5,488)**
Net profit (loss) on disposal	137	–	7	**144**	(34)	**110**
Change in fair value on assets held at 31 March 2009	(1,501)	(1,138)	(1,521)	**(4,160)**	412	**(3,748)**
Closing fair value at 31 March 2009	**3,613**	**2,801**	**3,292**	**9,706**	**12,455**	**22,161**
Closing cost	4,531	3,939	3,427	**11,897**	11,896	**23,793**
Closing valuation (loss) gain	(918)	(1,138)	(135)	**(2,191)**	559	**(1,632)**
Closing fair value at 31 March 2009	**3,613**	**2,801**	**3,292**	**9,706**	**12,455**	**22,161**

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 April 2009	15 747	6 414	**22,161**
Additions at cost	1,671	4,718	**6,389**
Disposal proceeds	(4,029)	(1,488)	**(5,517)**
Net (loss) profit on disposal	(134)	491	**357**
Change in fair value in the year on assets held at 31 March 2010	364	3,242	**3,606**
Closing fair value at 31 March 2010	13,619	13,377	**26,996**

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect impairment of financial assets held at the price of recent investment, or to adjust earnings multiples The sensitivity of these valuations to a reasonable possible change in such assumptions is given in note 19a

The total of fair value adjustments below cost made against unquoted investments at 31 March 2010 amounted to £724,000 (2009 £2,529,000) This includes no amounts written off such investments in 2010 or 2009

There have been no individual write-downs or provisions during the year which exceeded 5% of the total assets of the Company (2009 none)

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 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

	Net proceeds from sale £000	Cost £000	Opening carrying value at 1 April 2009 £000
Sheet Piling (UK) Limited	1,288	110	750
Primal Pictures Limited	62	22	62
Images at Work Limited	49	295	129
RMS Group Holdings Limited	36	36	36
Tekton Group Limited	12	-	-
Secure Mail Services Limited	21	-	-
Denison Mayes Limited	20	20	20
	1,488	**483**	**997**

Significant Interests

At 31 March 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	Class of shares held	Percentage of class held by the Company	Percentage of class held by other commonly managed funds
Adex Bridge Investments Limited	Turnaround	2	Ordinary	50 0%	-
Darwin Rhodes Group Limited	Recruitment	6 008	Ordinary	1 2%	-
		54,063	A Ordinary	11 5%	52 3%
Ellfin Home Care Limited	Healthcare	217	A Ordinary	21 7%	78 3%
		50,289	B Ordinary	21 7%	78 3%
Deep-Secure Ltd	Software	12,860	A Ordinary	28 6%	100 0%
		87,140	B Ordinary	28 6%	100 0%
Fishawack Limited	Healthcare Communications	22,667	Ordinary	7 2%	29 5%
Freshroast Coffee Co Limited	Manufacturing	5 271	Ordinary	13 0%	13 0%
GO Outdoors Limited	Consumer Products	1,875	Ordinary	1 4%	-
		34,141	A Ordinary	100%	-
Harris Hill Holdings Limited	Recruitment	37 143	A Ordinary	28 6%	71 4%
		22,857	B Ordinary	28 6%	71 4%
		5,714	Ordinary	2 1%	5 3%
Harvey Jones Limited	Manufacture/Distribution	21,149	A Ordinary	6 9%	23 2%
		56,566	B Ordinary	22 2%	74 9%
Lightmain Company Limited	Manufacturing	642,860	A Ordinary	30 0%	-
North Western Investments Limited	Turnaround	2	A Ordinary	50 0%	-
Primal Pictures Limited	Medical Information	79,680	Ordinary	3 7%	16 4%
RMS Group Holdings Limited	Stevedoring/Logistics	180 010	A Ordinary	8 8%	25 6%
Waterfall Services Limited	Healthcare	54,555	A Ordinary	44 4%	11 1%
		45,455	B Ordinary	44 4%	11 1%
4G Capital Limited	Software	2	Ordinary	50 0%	-

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

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

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

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

	British Smaller Technology Companies VCT 2 plc £000	North West Business Investment Scheme £000	The Yorkshire Fund LP £000	Yorkshire Enterprise Finance Limited £000	Baring English Growth Fund (North) LP £000	The Chandos Fund LP £000	Total £000	Total for this Company £000
Brulines plc	83	–	–	–	–	–	83	165
Cambridge Cognition Limited	–	–	–	–	–	–	–	–
Darwin Rhodes Group Limited	–	–	–	–	–	224	224	105
Deep-Secure Ltd	500	–	–	–	–	2 000	2,500	1,000
Ellfin Home Care Limited	81	498	–	–	–	456	1,035	211
Fishawack Limited	–	–	–	–	–	2,906	2,906	709
Freshroast Coffee Co Limited	–	–	6	–	–	–	6	30
Hargreaves Services plc	–	–	–	–	2,979	–	2,979	614
Harris Hill Holdings Limited	–	–	–	–	–	251	251	100
Harvey Jones Limited	209	–	–	–	–	1,201	1,410	417
K3 Business Technology Group plc	–	674	–	–	–	–	674	378
Patsystems plc	264	–	–	–	148	–	412	185
Pressure Technologies plc	430	–	–	–	–	–	430	579
Primal Pictures Limited	1,025	–	–	25	–	–	1 050	345
RMS Group Holdings Limited	149	–	–	–	–	532	681	383
Waterfall Services Limited	404	–	–	–	–	–	404	1,617

8. Trade and Other Receivables

	2010 £000	2009 £000
Amounts receivable within one year		
Trade receivables	**116**	123
Less Allowances for credit losses on trade receivables	**(80)**	(55)
Prepayments and accrued income	**274**	332
Other debtors	**9**	272
	319	672
Allowance for credit losses on trade receivables		
Allowances at 1 April	**55**	14
Additions – charged to Statement of Comprehensive Income	**25**	41
Allowances as at 31 March	**80**	55

Trade receivables are assessed for impairment when older than 90 days As of 31 March 2010 trade receivables of £36,000 were past due but not impaired (2009 £nil) The ageing analysis of these trade receivables is as follows

	2010 £000	2009 £000
1 – 3 months	**36**	–
3 – 6 months	–	–
More than 6 months	–	–

NOTES TO THE FINANCIAL STATEMENTS

8. Trade and Other Receivables (continued)

As of 31 March 2010 trade receivables of £80,000 (2009 £55,000) were impaired and provided for The ageing of these receivables is as follows

	2010 £000	2009 £000
3 – 6 months	**44**	24
6 – 12 months	**36**	17
More than 12 months	**-**	14

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £157,000 (2009 £512,000) The Company does not hold any collateral as security The carrying amounts of the Company's trade and other receivables are denominated in sterling

9. Cash and Cash Equivalents

	2010 £000	2009 £000
Cash at bank	**1,820**	3,697

10. Trade and Other Payables

	2010 £000	2009 £000
Amounts payable within one year		
Accrued expenses	**225**	66
Other creditors	**12**	64
	237	130

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 10 pence				
Authorised 165,000,000 (2009 165,000,000)	**16,500**		16,500	
Issued 32,115,031 (2009 31,870,847)		**3,212**		3,187

The movement in the year was as follows

	Date	Number of shares	Share Capital £000
Total as at 1 April 2009		31,870 847	3,187
Issue of shares	13 August 2009	138,413	14
Issue of shares	7 February 2010	105,771	11
As at 31 March 2010 (including treasury shares)		32,115,031	3,212

During the year the Company purchased 331,882 (2009 298,153) of its own shares at an arithmetical average of 73 6 pence per share These shares are held on the balance sheet in the treasury share reserve Full details of the share purchases are set out in the Directors' Report under the heading 'Issue and Purchase of Own Shares' At the year end the number of shares held in treasury was 1 382,837 (2009 1,050,955)

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

NOTES TO THE FINANCIAL STATEMENTS

12. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per share is calculated on attributable assets of £29,008,000 (2009 £26,400 000) and 30,732,194 (2009 30,819 892) shares in issue at the year end, excluding treasury shares

The treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 March 2010 The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted Net Asset Values per share are the same

13. Total Return per Ordinary Share

The Total Return per Ordinary share is calculated on cumulative dividends paid of 50 0 pence per Ordinary share (2009 45 0 pence per Ordinary share) plus the Net Asset Value as calculated per note 12

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

	2010 £000	2009 £000
Profit (loss) before tax	**4,202**	(3,266)
Increase in prepayments and accrued income	**(1,382)**	(276)
Increase in accruals and other creditors	**1,797**	70
Profit on realisation of investments in the year	**(357)**	(110)
Revaluation of investments in the year	**(3,606)**	3,748
Net cash inflow from operating activities	**654**	166

Cash movements above include the following	**2010 £000**	2009 £000
Dividends received	**169**	101
Interest received		
– gilt interest	**670**	724
– deposit interest	**37**	51
Total interest	**707**	775

15. Analysis of Changes in Cash and Cash Equivalents

	31 March 2009 £000	Cash flow £000	Other non cash changes £000	**31 March 2010 £000**
Cash and cash equivalents	3 697	(1,877)	–	**1,820**

16. Financial Commitments

There have been no investments approved by the Board at 31 March 2010 that have not been reflected in these accounts (2009 one) Since the year end three further investments totalling £482 000 have been approved by the Board (2009 one) and two of these, both follow-on investments, have completed

NOTES TO THE FINANCIAL STATEMENTS

17. Related Party Transactions

YFM Group Limited, the parent company of YFM Private Equity Limited, the Fund Manager to the Company, holds an investment in Primal Pictures Limited, an investee company of the Company At 31 March 2010 YFM Group's investment in Primal Pictures Limited was valued at £25,428 (2009 £25,428)

Mr Last is a non executive director of Patsystems plc During the year Mr Last received £45,000 (2009 £44,367) from Patsystems plc in respect of his services Mr Last holds a 0 4% equity stake in Patsystems plc

Mr Cammerman is a non executive director of Pressure Technologies plc During the year Mr Cammerman received £15,300 (2009 £13 075) from Pressure Technologies plc in respect of his services Mr Cammerman holds a 0 1% equity stake in Pressure Technologies plc, a 0 04% stake in Brulines plc and a 0 004% stake in Straight plc Mr Cammerman is also a director and 2 1% shareholder of Howmac plc, which holds a 0 02% stake in Hargreaves Services plc

18. Events after the Balance Sheet Date

On 4 March 2010, your Board published proposals offering existing investors the opportunity to subscribe for up to 2,050,000 new Ordinary shares in the Company at an offer price of 97 25 pence per share The Offer in respect of 2009/10 tax year opened and closed by 31 March 2010 As the Offer had closed by the year end, yet the fundraising proceeds could not be recognised as cash and cash equivalents until the shares were issued, the Company has recognised the monies to be received on issue of Ordinary shares of £1,736,000 within debtors on the balance sheet while the capital to be issued of £1,626,000, being proceeds less associated fundraising costs, is reflected within creditors

On 1 April 2010 the Company issued 1,784,967 Ordinary shares at a price of 97 25 pence per share in respect of the tax year 2009/10 Offer On 6 April 2010 and 22 June 2010 the Company issued a further 263,254 and 77 Ordinary shares respectively in respect of the tax year 2010/11, again at a price of 97 25 pence per share In aggregate these three issues of shares raised £1 94 million before expenses

There have been two follow-on venture capital investments made following the year end Further detail is given in note 16

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

Investments are made in a combination of equity, 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

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

	2010		2009	
	Loans and receivables £000	**Assets at fair value through profit or loss £000**	Loans and receivables £000	Assets at fair value through profit or loss £000
Assets as per balance sheet				
Cash and cash equivalents	**1,820**	**-**	3,697	-
Trade and other receivables	**157**	**-**	238	-
Investments at fair value through profit or loss	**-**	**26,996**	-	22,161
Total financial instruments	**1,977**	**26,996**	3,935	22,161

NOTES TO THE FINANCIAL STATEMENTS

19. Financial Instruments (continued)

	2010 Other financial liabilities £000	2009 Other financial liabilities £000
Liabilities as per balance sheet		
Trade and other payables	**237**	130
Share capital to be issued	**1,626**	-
	1,863	130

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

At 31 March 2010 and 31 March 2009, the financial assets and liabilities, by value, comprised

	2010		2009	
	£000	%	£000	%
Venture capital investments				
Ordinary shares	**10,151**	**35 0**	6,482	24 6
Loan stock	**6,648**	**22 9**	2,801	10 6
Preferred Ordinary shares	**457**	**1 6**	423	1 6
	17,256	**59 5**	9 706	36 8
Fixed interest government securities	**9,740**	**33 6**	12,455	47 2
Cash at bank	**1,820**	**6 3**	3,697	14 0
Other financial assets	**157**	**0 5**	238	0 9
Other financial liabilities	**(1,863)**	**(6 4)**	(130)	(0 5)
	27,110	**93 5**	25,966	98 4
Other assets – not financial instruments	**1,898**	**6 5**	434	1 6
	29,008	**100 0**	26,400	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 present a 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

NOTES TO THE FINANCIAL STATEMENTS

19. Financial Instruments (continued)

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

Of the Company's equity investments 37% by value are traded on AIM (2009 48%) A 15% increase in stock prices as at 31 March 2010 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £582,000 (2009 £494 000) 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

63% of the Company's equity investments by value are in unquoted companies held at fair value (2009 52%) The valuation methodology for these investments includes the application of externally produced FTSE multiples Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market Investments have been valued in line with the valuation guidelines described on page 21 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 £1,110,000 (3 8% 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 for impairment 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 had no impact on the net assets attributable to the Company's Shareholders and the total profit for the year

The largest single concentration of risk relates to the Company's investment in GO Outdoors Limited which constitutes 16 7% (2009 5 7%) of the net assets attributable to the Company's Shareholders The Board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis The average investment, excluding those suffering full impairment, is 2 1% (2009 1 4%) of the value of net assets

Exchange Risk

The Company has no significant exposure to exchange rate risk

Interest Rate Risk

The Company's venture capital investments include £6 648 000 (2009 £2,801,000) of loan stock in unquoted companies This loan stock is predominantly at fixed rates to guard against fluctuations in interest rates The Company is exposed to interest rate risk on 41 0% of its loan stock portfolio (2009 1 6%) The Company has some exposure to interest rates as a result of interest earned on bank deposits The Company's exposure to interest rate risk is judged to be immaterial

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

	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	**2,727**	**10 70%**	**31**	2,756	9 61%	43
Government Gilts	**9,740**	**4 87%**	**19**	12,455	5 23%	24
Combined	**12,467**	**6 21%**	**25**	15,211	6 03%	27

NOTES TO THE FINANCIAL STATEMENTS

19. Financial Instruments (continued)

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 £18,209,000 (2009 £19 614,000) which best represents the maximum credit risk exposure at the balance sheet date

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

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

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 maturity dates of the loan stock portfolio are as follows

		2010			2009	
		£000			£000	
	<1 year	**1-2 years**	**2-5 years**	<1 year	1-2 years	2-5 years
Unquoted Loan Investments	**56**	**41**	**6,551**	56	56	2,689

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

		2010			2009	
		£000			£000	
	<1 month	**3-6 months**	**>6 months**	1 month	3-6 months	>6 months
Interest	**–**	**44**	**36**	–	24	31
Capital	**–**	**–**	**–**	–	–	99

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, gains on disposal of 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

NOTES TO THE FINANCIAL STATEMENTS

19. Financial Instruments (continued)

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

The Company's overall liquidity risks are monitored on a quarterly basis by the Board The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses Of the Company's assets, 6 3% (2009 14 0%) are in the form of liquid cash and cash equivalents There are no undrawn committed borrowing facilities at either year end

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 21 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 March 2010 was £29 0 million (2009 £26 4 million)

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

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

NOTICE OF THE ANNUAL GENERAL MEETING

No: 3134749
British Smaller Companies VCT Plc

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 33 St James Square, London SW1Y 4JS on 21 September 2010 at 11 30am for the following purposes

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

Ordinary Business

Ordinary Resolutions

(1) That the Annual Report and Accounts for the year ended 31 March 2010 be received

(2) That the final dividend of 3 0 pence per Ordinary share for the year ended 31 March 2010 be approved

(3) That the Directors' Remuneration Report be approved

(4) That Mr P S Cammerman be re-elected as a Director

(5) That Grant Thornton UK LLP be appointed as auditors to the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PKF (UK) LLP) 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

Special Business

Special Resolution

(1) 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 authorised to be purchased is 4,814,043, being 14 99% of issued Ordinary shares as at 31 March 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 21 September 2010 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

BY ORDER OF THE BOARD

J E P Gervasio
Secretary
24 June 2010

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

NOTICE OF THE ANNUAL GENERAL MEETING

Notes to the Notice of the Annual General Meeting

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

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

(3) To be valid, a form of proxy must be lodged with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time of appointment for holding the Meeting Completion of the proxy does not preclude a member from subsequently attending and voting at the Meeting in person if he so wishes

(4) In accordance with Regulation 41 of The Uncertified Securities Regulations 2001, only those members entered on the Company's register of members not later than 6 00 pm on 19 September 2010, or if the Meeting is adjourned, Shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned Meeting, shall be entitled to attend and vote at the Meeting

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

(6) Biographical details concerning the director offering himself for re-election can be found at page 22 of the Annual Report

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

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