YFM Equity Partners

British Smaller Companies VCT2 plc

Annual Report

for the year ended 31 December 2011

Contents

British Smaller Companies VCT2 plc

British Smaller Companies VCT2 plc ("the Company") is managed by YFM Private Equity Limited ("the Fund Manager") which is a wholly owned subsidiary of YFM Equity Partners Limited and is authorised and regulated by the Financial Services Authority. YFM Equity Partners Limited is part of the GLE Group of Companies. The Company was formed in 2000 and invests in a combination of mature businesses operating in traditional industries and emerging businesses offering opportunities in the application and development of innovation. A diverse existing portfolio of investments reduces the exposure to particular markets and individual companies. The Company currently has 30 investments with the cost of investments being £11.4 million and with a current audited valuation of £10.2 million as at 31 December 2011 (2010: £6.9 million).

Financial Calendar

Ex-Dividend Date	18 April 2012	Annual General Meeting	11 May 2012
Record Date	20 April 2012	Dividend Paid	22 May 2012
Results Announced	30 March 2012		

Financial Highlights

Net Asset Value

During the year the Net Asset Value has increased by 4.1 pence per Ordinary share prior to the payment of dividends totalling 4.0 pence per Ordinary share.

Investment Returns

The Company's investment portfolio has increased in value by 17.2% in the year. This compares to a 15% fall in the FTSE™ Small Cap Share Index over the same period.

Dividends for the Year

Dividends for the year total 4.0 pence per Ordinary share subject to Shareholder approval of a proposed final dividend of 2.0 pence per Ordinary share. The average dividend over the five years is 4.6 pence per Ordinary share; representing a yield of 8.1% on the share price at 31 December 2011.

Cumulative Dividends Paid and Declared

Cumulative dividends paid and declared since the Company's inception have increased in the year to 30.0 pence per Ordinary share from 26.0 pence per Ordinary share.

Return

The Company's Total Return stands at 98.5 pence per Ordinary share. This compares to an after income tax cost of 80.0 pence per Ordinary share for those investors subscribing at the Company's launch.

Financial Summary

Five Year Summary

	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007
Income	**£391,000**	£321,000	£372,000	£394,000	£339,000
Profit (loss) before and after tax	**£1,040,000**	(£103,000)	£310,000	£558,000	(£203,000)
Earnings (loss) per Ordinary share	**4.75p**	(0.59)p	1.86p	3.35p	(1.22)p
Cumulative dividend paid	**30.0p**	26.0p	22.0p	16.0p	10.5p
Net assets	**£15,982,000**	£11,829,000	£12,106,000	£12,794,000	£13,151,000
Total Return per Ordinary share	**98.5p**	94.4p	94.7p	92.9p	89.5p

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.

Summary of Dividends by Revenue and Capital

	Revenue	Capital	Total
	Pence	Pence	Pence
Dividends paid since inception to 31 December 2011*	12.15	17.85	30.00

*Excluding final dividend proposed of 2.0 pence per Ordinary share for the year to 31 December 2011

Total Shareholder Return by Fundraising Round

The table below shows the Total Return on each fundraising round per Ordinary share.

	Offer Price	Offer Price Net of Tax	Net Asset Value as at 31 December 2011	Cumulative Dividends paid since fundraisings*	Total Return since fundraisings*	Total Return since fundraisings with Participation in the DRIS **
	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02 Tax Year	100.00	80.00	68.50	30.00	98.50	104.4
2001/02 and 2002/03 Tax Year	100.00	80.00	68.50	30.00	98.50	104.4
December 2005 issue of shares on acquisition of British Smaller Technology Companies	69.00	N/A	46.69	19.67	66.36	69.57
2009/10 and 2010/11 Tax Year	77.25	54.08	68.50	8.00	76.50	76.87
2010/11 and 2011/12 Tax Year	70.25	49.18	68.50	4.00	72.50	72.56

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 invested in shares of the Company.
** This assumes that at the time of investment the tax relief given on the investment was not invested in shares of the Company. Assuming that all dividends since inception were invested under the Company's Dividend Reinvestment Scheme.

The table below shows the example of a Shareholder who invested £3,000 in the first round. Total Return is equivalent to £3,132 if the Shareholder had opted to participate in the Company's Dividend Reinvestment Scheme since the Company's inception.

	Offer Price	Offer Price Net of Tax	Net Asset Value as at 31 December 2011	Cumulative Dividends paid since fundraising*	Total Return since fundraising*	Total Return since fundraising with Participation in the DRIS **
	£	£	£	£	£	£
2000/01 and 2001/02 Tax Year	3,000	2,400	2,055	900	2,955	3,132

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 invested in shares of the Company.
** This assumes that at the time of investment the tax relief given on the investment was not invested in shares of the Company. Assuming that all dividends since inception were invested under the Company's Dividend Reinvestment Scheme.

Chairman's Statement

2011 saw a continuation of recent economic uncertainty with an optimistic first half being tempered by Euro-zone credit concerns in the second half. Against this backdrop the Company's portfolio has performed strongly with a value gain of 17.2% over the year as businesses benefited from improved efficiencies and clear value creation strategies. The Total Return, calculated by reference to Net Asset Value plus cumulative dividends, at the year-end increased by 4.1 pence per Ordinary share to 98.5 pence per Ordinary share compared to 94.4 pence per Ordinary share in 2010, an increase of 4.3%. This result is particularly pleasing when compared with the performance of UK stock markets with the FTSE™ Small Cap Share Index down 15% and FTSE™ All Share Index down 7.8% over the 12 months to 31 December 2011.

Cumulative dividends at 31 December 2011 amounted to 30.0 pence per Ordinary share. The Net Asset Value per Ordinary share as at 31 December 2011 was 68.5 pence per Ordinary share, an increase of 0.1 pence per Ordinary share compared to 2010 after payment of a 4.0 pence per Ordinary share dividend during the year.

Although economic uncertainties continue into 2012 there is increasing cause for optimism and improving stability. The Fund Manager is seeing increasing levels of good investment opportunities which are now showing through in investment levels. The Board has therefore sought to increase the Company's investment capacity via an Offer for Subscription for new Ordinary shares which it launched in October 2011 and which remains open until 11.00 am on 5 April 2012. As at the date of this report I am pleased to announce that £6.98 million of Ordinary shares have been allotted. This will enable the Company to take advantage of strong investment opportunities, to continue to support growth within the portfolio and to increase the stability of returns through increased diversification and income generation.

Investment Portfolio

New investments in 2011 increased to £2.8 million compared to only £1.4 million in 2010, although this is still low relative to previous years. This is expected to increase further in 2012 as the macro economic factors become clearer and business owners and funders are able to plan and prepare to take investment decisions. History has shown that the best returns have been made from investments as the economy begins to grow following a recession and the Company remains well placed to take advantage of good opportunities as they occur.

In 2011 the Company made 11 investments, which comprised three new investments in un-quoted companies, two follow-on investments and six smaller investments into AIM quoted companies.

In July 2011, £400,000 was invested as part of the £5 million management buy-out of Bagel Nash Limited, an established bakery and operator of 11 espresso and bagel bars in the North of England. In November 2011, £500,000 was invested to fund the growth plans of PowerOasis Limited, a leading provider of power management and energy efficient solutions to international mobile telecommunications operators. In December 2011, £375,000 of growth capital was invested into TeraView Limited, a provider of products with applications in the electronics, medical analysis, solar power and security sectors based on its innovative terahertz technology.

Within the portfolio, £233,334 was invested to acquire high-yielding preference shares in established contract catering group Waterfall Services Limited. These were subsequently redeemed during the year (with an effective yield of 24.72%). A further £192,000 was also invested into Sirigen Group Limited to support the ongoing development of its fluorescent marking technology which is beginning to achieve significant commercial success.

The six new AIM investments had a total cost of £1.1 million and were selected to provide a balance of medium term growth and yield in low risk businesses with good liquidity levels. One of these investments, Group NBT plc, was subject to a private equity funded buyout which achieved a quick conclusion during the year with a profit of £59,000 on its £197,000 cost. Overall, the remaining five holdings have seen a small (£14,000) increase in investment valuation in spite of a significant decline across quoted markets in the second half of 2011.

Although there have been no significant divestments from the portfolio during the year, the Company has received proceeds of £943,000 (excluding the sale of fixed income securities). This includes £322,000 of deferred proceeds in respect of the trade sale of DxS Limited in 2009, bringing the total amount received from this investment to £2.3 million, representing a 14.85 times return on capital invested. The Company received £292,000 via the redemption of preference shares in Waterfall Services Limited. In addition to the sale of the investment in Group NBT plc, the Company also made a small partial disposal of its holding in AIM quoted Optos plc, taking advantage of improved trading results. Overall proceeds received during the year, including the DxS Limited deferred consideration, generated a profit of £203,000 above previous carrying values. After a profit of £22,000 on sales from the gilt portfolio, the total gain on disposals for the year amounted to £225,000.

Overall the value of investments has increased by £1,112,000 during 2011, ignoring the impact of the additions and disposals and the gain from the DxS Limited deferred consideration. This figure comprises a value gain of £1,219,000 in respect of unquoted investments, a fall in value of £186,000 in respect of AIM investments and an increase in the value of gilts of £79,000.

Across the unquoted portfolio good progress has been made by a number of businesses that have seen profits grow despite the challenging economic environment. In particular secure communication systems provider Deep-Secure Limited, whose products continue to make significant headway in their markets which is reflected in the increased valuation of £710,000 in the year. There are also several businesses implementing clear value growth strategies. Sirigen Group Limited has made good progress in generating commercial revenues from its innovative fluorescent reagent technology, showing in a value growth of £400,000 net of further investment cost. Digital Healthcare Limited successfully acquired the other significant UK provider of diabetic retinal screening services with the support of the National

Screening Council and saw the investment value increase by £254,000. Also Cambridge Cognition Limited saw a value increase of £204,000, having now proven a profitable model supplying its diagnostic tests for mental health conditions to clinical trial providers and is now exploring the significant opportunity to rollout services to primary medical providers. These gains have been partially offset by a £400,000 value reduction relating to Immunobiology Limited reflecting further delays in commencing clinical trials of its innovative vaccine technology. Overall, the portfolio remains well funded and should be well placed for value growth as individual growth strategies are implemented and economic conditions improve.

A comprehensive review of the investment portfolio can be found within the Fund Manager's Review on pages 9 to 21.

Financial Results

The result for the financial year ended 31 December 2011 was a pre-tax profit of £1.04 million which comprised a profit in respect of capital of £1.08 million and a revenue loss of £0.04 million, as compared to a pre-tax loss of £0.10 million in 2010 (which comprised a capital loss of £0.11 million and a revenue profit of £0.01 million). This amounts to an increase of 4.1 pence per Ordinary share (2010: reduction of 0.7 pence per Ordinary share) before payment of dividends totalling 4.0 pence per Ordinary share.

The movement in Net Asset Value per Ordinary share in the year was:

	Pence/Ordinary share
31 December 2010	68.4
Dividends paid	(4.0)
Buy back of shares	0.2
Issue of shares	(0.5)
Net increase in value	4.4
31 December 2011	**68.5**

Cash and gilt investments at the end of the year amounted to £5.69 million. Further disposals will enhance cash reserves and enable distributions to Shareholders in the form of tax free dividends.

Your Board remains committed to achieving the objective of a constant dividend stream and, following the 4.0 pence per Ordinary share of dividends paid this year, it is pleased to propose a final dividend of 2.0 pence per Ordinary share. If approved, the dividend will be paid on 22 May 2012 to Shareholders on the register as at 20 April 2012.

Fundraising and Shareholder Relations

The Company is seeking to increase its investment capacity through an Offer for Subscription in Ordinary shares. On 26 October 2011 your Board published a prospectus offering investors the opportunity to subscribe for up to 14,539,007 new Ordinary shares in the Company at an offer price of 70.5 pence per Ordinary share. The Offer closes on 5 April 2012 at 11.00 am. Following an excellent response to the Offer, an initial allotment of £2,676,119 for 3,795,914 new Ordinary shares was made on 5 January 2012. A second allotment of £4,305,533 for 6,106,906 new Ordinary shares was made on 20 March 2012. The additional investment capacity will enable the Company to take advantage of additional attractive investment opportunities and further diversify the investment portfolio.

At a Shareholders' meeting on 30 August 2011 Shareholders voted in favour of re-introducing a buy back policy and the rate of discount to Net Asset Value at which Ordinary shares are bought back has been set at no more than 15%. During the year the Company has bought back 363,022 Ordinary shares at an average price of 57.08 pence per Ordinary share representing 1.56% (excluding treasury shares) of the issued share capital at the year end. These shares have been placed in treasury.

Your Board remains committed to enhancing Shareholder communications and continues to run Shareholder workshops where investors are invited to meet members of the Board, representatives from YFM Private Equity Limited, the Company's Fund Manager, and the CEO's of one or more of our investee companies. Our 17th Shareholder workshop was held at the Royal College of Surgeons in London on 9 February 2012 and was attended by over 150 investors. Presentations at the workshop were made by David Hall on behalf of the Company's Fund Manager, YFM Private Equity Limited, as well as by the CEO of investee company Bagel Nash and a member of HM Revenue & Customs.

The Annual General Meeting of the Company will be held at 12.00 noon on 11 May 2012 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 58.

Regulation

Venture Capital Trusts have had a positive influence and benefit on the flow of capital to the UK's smaller businesses and it is welcome that this is being recognised.

Following the Chancellor's budget in March 2012 and the issue of the Draft Finance Bill 2012 on 6 December 2011 investments undertaken by the Company will be subject to new legislation. The most significant change which will affect the Company's investment policy is that:

- For investments made after 5 April 2012 the annual investment limit of £1 million that any single VCT can invest in a company will be removed, except where the company trades in partnership or through a joint venture.

In addition to the above investment criteria, changes have been made to the "qualifying company" limits effective from 6 April 2012 subject to the granting of EU approval. These are summarised as follows:

- The employee limit will increase from 50 to 250 for investee companies.
- An increase in the size threshold of gross assets to £15 million before investment from £7 million.
- The maximum amount that an investee company can receive from VCTs and any other State Aid sources is now proposed to be £5 million.

Such changes to the current legislation should increase the number of potential new investments available to the Company and help diversify the portfolio further.

Subsequent Events

Since the year end we have seen increased levels of investment activity. The Company invested £700,000 in January 2012 as part of the management buyout of the retail display group Displayplan Holdings Limited from its US parent. In February 2012 a further £58,000 was invested into portfolio business Sirigen Group Limited as part of a £1 million internal growth capital round. In March 2012 £300,000 was invested as part of the £2 million buyout of Selima Limited, a supplier of payroll and expenses software predominantly to public sector customers. Also in March 2012 a further £148,000 was invested into EKF Diagnostics Holdings plc, a growing international diagnostics group. In January 2012 derivatives trading system provider, Patsystems plc, was sold to trade purchaser ION Group plc with the Company receiving £164,000 of cash proceeds from the sale of its shares. In March 2012 the Company's £140,000 remaining loan to Humber stevedore and logistics group RMS Group Holdings Limited was repaid as a result of a refinancing supported by the group's bank HSBC following further positive trading results. Also in March the Company sold 7.25% of its holding in quoted software group Tikit Group plc generating £17,000 of proceeds.

Outlook

There have been signs of economic conditions at least stabilising but the debt crisis in the Euro-zone will create further economic uncertainty for several months. However the portfolio remains well funded with many businesses now showing improved efficiency or driving clear strategies to maximise the new market opportunities they now see. This Company remains well placed to continue to support our portfolio companies and take advantage of investment opportunities that may arise in the short term.

As can be demonstrated by the recent increase in completed investments the Board remains of the opinion that the upcoming period is likely to present many good investment opportunities for new investments. It was with this in mind that we increased the investment capacity of the Company this year and the Board will continue to consider the opportunity for further fundraising offers in the future.

Richard Last

Richard Last
Chairman
30 March 2012

Fund Manager's Review

Portfolio valuation at 31 December 2011 and full history of disposals up to 31 December 2011

Name of Company	Date of Initial Investment	Location	Industry Sector	Current Cost £000	Proceeds to Date* £000	Investment Valuation at 31 December 2011 £000	Returns to Date £000
Current Investments							
Digital Healthcare Limited	Jun-05	Cambridge	Medical Instruments	3,072	–	1,396	1,396
Deep-Secure Limited	Dec-09	Malvern	Software	500	–	1,103	1,103
Primal Pictures Limited	Dec-05	London	Medical Instruments	897	205	1,081	1,286
Sirigen Group Limited	Jun-10	Hampshire	Medical Technology	458	–	858	858
Immunobiology Limited	Jun-03	Cambridge	Pharmaceuticals	1,032	–	602	602
Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	–	569	569
PowerOasis Limited	Nov-11	Swindon	Energy Infrastructure	500	–	500	500
Bagel Nash Limited	July-11	Leeds	Retail Baker	405	–	405	405
Harvey Jones Holdings Limited	May-07	London	Consumer Retail	389	–	391	391
Waterfall Services Limited	Feb-07	Warrington	Healthcare	192	292	390	682
TeraView Limited	Dec-11	Cambridge	Medical Instruments	375	–	375	375
Cambridge Cognition Limited	May-02	Cambridge	Software	240	–	286	286
Iomart Group plc	May-11	London	IT Infrastructure	198	–	285	285
Brady plc	Dec-10	Cambridge	Metals and Commodities	239	–	281	281
Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	300	–	270	270
RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	210	165	246	411
May Gurney Integrated Services plc	May-11	Norwich	Construction	212	–	217	217
Tikit Group plc	May-11	London	Software	198	–	195	195
Optos plc	Dec-05	Dunfermline	Medical Instruments	81	167	175	342
Patsystems plc	Sep-07	London	Software	317	–	156	156
2ergo Group plc	May-11	Manchester	Software	197	–	114	114
EKF Diagnostics Holdings plc	Jul-11	London	Medical Instruments	77	–	85	85
Tissuemed Limited	Dec-05	Leeds	Consumer Retail	48	–	60	60
Brulines Group plc	Oct-06	Stockton-on-Tees	Electronics	81	–	50	50
Allergy Therapeutics plc	Oct-04	Worthing	Biotechnology	350	–	48	48
Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	317	–	43	43
Intelligent Recordings Limited	Sep-08	Chester	Electronics	–	–	28	28
Solcom Limited	Dec-05	Ryde	Software	–	–	–	–
Oxis Energy Limited	Dec-05	Abingdon	Electronics	5	–	–	–
				11,390	**829**	**10,209**	**11,038**
Full disposals to date				9,433	14,571	–	14,571
Total				**20,823**	**15,400**	**10,209**	**25,609**

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

Portfolio valuation at 31 December 2011 and full history of disposals up to 31 December 2011 (continued)

Name of Company	Date of Initial Investment	Date of Disposal	Industry Sector	Original Cost* £000	Proceeds to Date** £000	Capital Return Multiple	Disposal to Date £000	Gains (Losses) on Disposal £000
Disposed Investments								
DxS Limited	Apr-04	Sep-09	Healthcare	163	2,588	15.87	2,588	2,425
Cozart plc	Jul-04	Oct-07	Healthcare	1,566	2,983	1.90	2,983	1,417
Sarian Systems Limited	Dec-05	Apr-08	Telecoms	928	2,605	2.80	2,605	1,677
Vibration Technology Limited	Mar-02	Sep-06	Industrial	1,061	2,328	2.20	2,328	1,267
Amino Technologies plc	Sep-01	Nov-04	Electronics	415	1,875	4.52	1,875	1,460
The ART Technology Group Inc	Apr-03	Oct-09	Software	275	638	2.32	638	363
Tamesis Limited	Jul-01	Sep-07	Software	150	317	2.11	317	167
Oxonica plc	May-02	Sep-09	Chemical	241	258	1.07	258	17
Group NBT plc	May-11	Nov-11	IT Support	197	256	1.30	256	59
Tekton Group Limited	Dec-05	Dec-06	Software	100	223	2.23	223	123
Voxar Limited	Dec-05	Nov-06	Software	–	134	–	134	134
Hallco 1389 Limited & Hallco 1390 Limited	Dec-06	Mar-08	Software	50	126	2.52	126	76
Arakis Limited	Mar-04	Aug-05	Healthcare	14	108	7.71	108	94
SoseiCo Limited	Aug-05	Feb-06	Healthcare	158	94	0.59	94	(64)
Broadreach Networks Limited	Feb-03	Dec-05	Telecoms	550	17	0.03	17	(533)
Sirus Pharmaceuticals Limited	Sep-01	Mar-04	Healthcare	270	14	0.05	14	(256)
Focus Solutions Group plc	Dec-05	Feb-06	Software	7	7	1.00	7	–
Infinite Data Storage Limited	Mar-02	Dec-10	Software	425	–	–	–	(425)
Purely Proteins Limited	Nov-03	Dec-05	Software	438	–	–	–	(438)
ExpressOn Biosystems Limited	Oct-02	Dec-05	Healthcare	450	–	–	–	(450)
Comvergent Limited	Dec-05	Dec-08	Software	611	–	–	–	(611)
Silistix Limited	Dec-03	Dec-11	Electronics	1,364	–	–	–	(1,364)
Total				**9,433**	**14,571**	**–**	**14,571**	**5,138**

* Original or acquired cost where the investment was acquired at the fair value ascribed to it at the time of the acquisition of British Smaller Technology Companies VCT plc.
** Proceeds include premiums and profits on loan repayments and preference redemptions.

Investment Portfolio

This section describes the business of the active companies in the portfolio, at 31 December 2011 as detailed on page 9. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed.

Digital Healthcare Limited

Cambridge
www.digital-healthcare.co.uk

Cost:	£3,072,000	
Valuation:	£1,396,000	
Dates of Investment:	June & December 2005, July 2007, October & November 2008	
Equity held:	25.04%	
Valuation basis:	Earnings multiple	
Year ended 30 September	**2010 £million**	2009 £million
Retained losses	**(5.26)**	(2.77)
Net assets	**2.43**	4.92

Digital Healthcare has developed software for the management of digital images in the diabetic screening, ophthalmology and optometric markets. It has developed its UK business becoming the leading supplier of diabetic retinopathy screening software to the NHS. Digital Healthcare recently completed the acquisition of the number two player, Orion Limited, supported by the National Screening Council.

Digital Healthcare Limited has a small company exemption from filing full audited financial statements at Companies House.

Deep-Secure Limited

Malvern
www.deep-secure.com

Cost:	£500,000
Valuation:	£1,103,000
Date of Investment:	December 2009
Equity held:	6.43%
Valuation basis:	Earnings multiple
Interest:	£28,701 (2010: £27,000)
Year ended 31 December	**2010 £million**
Sales	**2.62**
Loss for the period	**(0.50)**
Retained losses	**(0.50)**
Net liabilities	**(0.18)**

Deep-Secure's market leading products protect against threats to IT security via high security network border gateway technology, which enables customers to maintain network separation and apply content inspection so as to defend sensitive and protected information from intruders. As working practices change and more information is shared electronically, increasing levels of exposure to leakage and attack demand 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.

Primal Pictures Limited

London
www.primalpictures.com

Cost:	£897,000	
Valuation:	£1,081,000	
Date of Investment:	December 2005	
Equity held:	17.18%	
Valuation basis:	Earnings multiple	
Year ended 31 December	**2010 £million**	2009 £million
Retained losses	**(3.84)**	(4.52)
Net liabilities	**(1.07)**	(1.12)

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

Primal Pictures Limited has a small company exemption from filing full audited financial statements at Companies House.

Sirigen Group Limited

Hampshire
www.sirigen.com

Cost:	£458,000
Valuation:	£858,000
Dates of Investment:	June 2010, October 2010 and October 2011
Equity held:	5.60%
Valuation basis:	Price of recent investment, reviewed for change in fair value

Year ended 31 December	**2010 £million**	2009 £million
Sales	**0.05**	0.10
Loss before tax	**(0.52)**	(0.46)
Retained losses	**(1.40)**	(0.88)
Net liabilities	**(1.40)**	(0.88)

Sirigen produces fluorescent reagents that improve the efficiency of analysis of the effectiveness of certain drugs. Sirigen's versatile HSF™ technology simplifies sample processing and instrumentation requirements in both immunodiagnostic and nucleic acid based applications, and facilitates high volume screening in theradiagnostics and other personal care applications. Sirigen's innovative technology is now integrated into a range of commercially available products.

Immunobiology Limited

Cambridge
www.immbio.com

Cost:	£1,032,000
Valuation:	£602,000
Dates of Investment:	June & December 2003, November & December 2005, August 2007, and March 2010
Equity held:	10.20%
Valuation basis:	Price of recent investment, reviewed for change in fair value

Year ended 31 May	**2011 £million**	2010 £million
Sales	**–**	0.07
Loss before tax	**(1.27)**	(1.36)
Retained losses	**(7.07)**	(6.05)
Net liabilities	**(2.05)**	(1.03)

Immunobiology is developing new methods of producing high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and hepatitis. Progress is being made in partnership with various healthcare institutions and universities to prove the advantages of this new technology and gain regulatory clearances to begin human trials. A licence deal has recently been announced with Chinese pharmaceutical group Lanzhou Institute of Biological Products Co Limited to fund the clinical development of a TB vaccine.

Bluebell Telecom Group Limited

Newcastle upon Tyne
www.bluebelltelecom.com

Cost:	£500,000
Valuation:	£569,000
Date of Investment:	September 2010
Equity held:	6.75%
Valuation basis:	Earnings multiple
Interest:	£35,908 (2010: £10,765)

Year ended 30 April	**2011 £million**	2010 £million
Sales	**7.02**	–
Loss before tax	**(0.17)**	(0.02)
Retained losses	**(0.27)**	(0.04)
Net assets	**4.58**	3.96

Bluebell is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's investment was made to assist with the next phase of Bluebell's growth. In August 2011 Bluebell acquired another telecommunications group, Worldwide ISDN Limited.

PowerOasis Limited

Swindon
www.power-oasis.com

Cost:	£500,000	
Valuation:	£500,000	
Date of Investment:	November 2011	
Equity held:	3.60%	
Valuation basis:	Price of recent investment, reviewed for change in fair value	

Year ended 31 January	**2011 £million**	2010 £million
Retained losses	**(2.98)**	(1.57)
Net assets	**0.67**	0.17

PowerOasis is a provider of power management solutions to the mobile telecommunications sector. Their power systems are installed at communication masts in remote international locations, often not connected to an electricity grid, facilitating significant cost savings by selectively switching between a range of alternative power sources.

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

Bagel Nash Limited

Leeds
www.bagelnash.com

Cost:	£405,000	
Valuation:	£405,000	
Date of Investment:	July 2011	
Equity held:	4.60%	
Valuation basis:	Price of recent investment, reviewed for change in fair value	
Interest:	£16,894 (2010: nil)	

Year ended 30 April	**2011 £million**	2010 £million
Retained profits	**1.28**	1.10
Net assets	**1.28**	1.10

Bagel Nash is a bakery and branded food retailer based in the North of England with 11 outlets. The Company's recent investment backed a proven management team to lead a buyout with the potential to improve operational efficiencies and then roll out the proven retail concept into other geographical areas.

Bagel Nash Limited has a small company exemption from filing full audited financial statements at Companies House.

Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost:	£389,000	
Valuation:	£391,000	
Date of Investment:	May 2007	
Equity held:	3.44%	
Valuation basis:	Earnings multiple	
Interest:	£34,971 (2010: £34,971)	

Year ended 31 December	**2010 £million**	2009 £million
Sales	**10.87**	8.63
Profit (loss) before tax	**0.27**	(0.37)
Retained profits	**0.09**	–
Net assets	**0.63**	0.53

Harvey Jones is a manufacturer/retailer of kitchen furniture. The business has a manufacturing facility in the UK and stores in London and affluent provincial towns and cities principally in the South of England. Its strong brand positioning has helped Harvey Jones to retain volumes through the economic downturn. The business has continued to selectively open new stores increasing its footprint to 23 from 10 at the time of investment. This increased market share coupled with a low level of gearing positions Harvey Jones well to benefit as market conditions improve.

Waterfall Services Limited

Warrington
www.caterplus.co.uk

Cost:	£192,000
Valuation:	£390,000
Dates of Investment:	February 2007, June 2008 and September 2011
Equity held:	4.61%
Valuation basis:	Earnings multiple
Dividends received:	£10,955 (2010: £5,883)
Interest:	£13,333 (2010: £13,333)

Year ended 31 March	**2011 £million**	2010 £million
Sales	**43.26**	36.33
Profit before tax	**1.30**	0.85
Retained profits	**1.57**	0.83
Net assets	**2.45**	1.59

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

TeraView Limited

Cambridge
www.teraview.com

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

Year ended 30 April	**2011 £million**	2010 £million
Sales	**2.95**	2.16
Loss before tax	**(5.75)**	(5.63)
Retained losses	**(32.00)**	(26.49)
Net liabilities	**(18.72)**	(13.26)

TeraView has developed a range of instrumentation and testing equipment based on its innovative terahertz technology which address a range of commercial applications in the electronics, medical analysis, solar power and security sectors. The majority of future growth is expected to come from the packaged semiconductor testing market.

Cambridge Cognition Limited

Cambridge
www.camcog.com

Cost:	£240,000
Valuation:	£286,000
Date of Investment:	May 2002
Equity held:	2.43%
Valuation basis:	Price of recent investment, reviewed for change in fair value and supporting third party investment

Year ended 31 December	**2010 £million**	2009 £million
Sales	**4.83**	3.31
Profit (loss) before tax	**0.74**	(0.52)
Retained losses	**(6.16)**	(6.91)
Net liabilities	**(0.25)**	(0.80)

Cambridge Cognition is a cognitive test development company specialising in computerised psychological testing of a wide variety of mental health conditions. It received funding from a range of investors to assist with commercialising its intellectual property. A profitable business model has been established providing its tests for use in evaluating clinical trials.

Iomart Group plc

London
www.iomart.com

Cost:	£198,000	
Valuation:	£285,000	
Date of Investment:	May 2011	
Equity held:	0.24%	
Valuation basis:	Quoted bid price	
Dividends received:	£1,495	

Year ended 31 March	**2011 £million**	2010 £million
Sales	**25.25**	18.33
Profit before tax	**2.79**	1.25
Retained profits	**19.15**	16.31
Net assets	**38.09**	35.59

The **Iomart Group** is one of Europe's leading providers of managed hosting and cloud computing services. Iomart Group specialises in the design, delivery and management of business-critical hosting services enabling companies and organisations to reduce the cost, complexity and risks associated with maintaining their own web and online applications.

Iomart recently announced, via its pre-close statement, pleasing full year results with an expected EBITDA of not less than £11 million for the year ended 31 March 2012 compared to £6.6 million for the year ended 31 March 2011.

Brady plc

Cambridge
www.bradyplc.com

Cost:	£239,000	
Valuation:	£281,000	
Date of Investment:	December 2010	
Equity held:	0.75%	
Valuation basis:	Quoted bid price	
Dividends received:	£5,667 (2010: nil)	

Year ended 31 December	**2011 £million**	2010 £million
Sales	**19.16**	11.12
Profit before tax	**2.10**	0.62
Retained earnings	**3.95**	3.00
Net assets	**23.95**	22.61

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

Pressure Technologies plc

Sheffield
www.pressuretechnologies.co.uk

Cost:	£300,000	
Valuation:	£270,000	
Dates of Investment:	June 2007 & May 2008	
Equity held:	1.76%	
Valuation basis:	Quoted bid price	
Dividends received:	£14,407 (2010: £13,606)	

Year ended 31 October	**2011 £million**	2010 £million
Sales	**23.13**	21.71
Profit before tax	**0.58**	3.51
Retained profits	**9.60**	10.00
Net assets	**15.54**	15.91

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

RMS Group Holdings Limited

Goole
www.rms-europe.co.uk

Cost:	£210,000
Valuation:	£246,000
Dates of Investment:	July 2007, June 2008 and August 2010
Equity held:	3.29%
Valuation basis:	Earnings multiple
Interest:	£16,800 (2010: £30,924)

Year ended 31 December	**2010 £million**	2009 £million
Sales	**25.46**	24.00
Profit before tax	**0.68**	0.71
Retained losses	**(0.03)**	(0.13)
Net assets	**5.52**	5.43

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 service and expand its operations along the Humber estuary. Whilst dependent on the overall level of commodity movements the financing structure of the company has been defensively constructed giving it a competitive advantage over others in its sector. The RMS management have used the tough economic conditions to consolidate their market position.

In March 2012 the remaining loan of £140,000 was repaid as a result of refinancing supported by the group's bank HSBC.

May Gurney Integrated Services plc

Norwich
www.maygurney.co.uk

Cost:	£212,000
Valuation:	£217,000
Dates of Investment:	May and June 2011
Equity held:	0.11%
Valuation basis:	Quoted bid price
Dividends received:	£3,525

Year ended 31 March	**2011 £million**	2010 £million
Sales	**571.40**	483.10
Profit before tax	**18.80**	18.40
Retained earnings	**64.10**	53.40
Net assets	**84.10**	73.40

May Gurney is an infrastructure support services company which provides essential maintenance and enhancement services to clients in the public and regulated sectors. The group is well managed and has grown through a series of low risk acquisitions and is ungeared with a significant cash balance.

The business has continued to perform strongly in the last six months. Revenues have increased by 21% to £351 million, with EBITDA up 25% to £20.4 million for the six months ending 30 September 2011.

Tikit Group plc

London
www.tikit.com

Cost:	£198,025
Valuation:	£195,000
Dates of Investment:	May and June 2011
Equity held:	0.47%
Valuation basis:	Quoted bid price
Dividends received:	£1,725

Year ended 31 December	**2011 £million**	2010 £million
Sales	**26.40**	26.88
Profit before tax	**3.53**	2.94
Retained profits	**11.92**	9.96
Net assets	**18.17**	16.16

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 and is increasingly broadening services and extending its customer base. The business is ungeared with significant net cash and increasing levels of recurring revenue.

Optos plc

Dunfermline
www.optos.com

Cost:	£81,000	
Valuation:	£175,000	
Dates of Investment:	December 2005 & February 2007	
Equity held:	0.11%	
Valuation basis:	Quoted bid price	

Year ended 30 September	**2011 $million**	2010 $million
Sales	**143.30**	106.30
Profit before tax	**22.00**	12.70
Retained losses	**(21.30)**	(45.50)
Net assets	**100.50**	75.00

Optos has developed a series of scanning laser ophthalmoscopes used by optometrists for the early detection of eye problems such as age-related macular degeneration. Approximately 4,000 devices have been installed world-wide, mostly in North America, either on a capital sale or rental basis. A new product, Daytona, was launched in October 2011.

Patsystems plc

London
www.patsystems.com

Cost:	£317,000	
Valuation:	£156,000	
Dates of Investment:	September 2007 & March 2008	
Equity held:	0.57%	
Valuation basis:	Quoted bid price	
Dividends:	£6,685 (2010: £5,630)	

Year ended 31 December	**2010 £million**	2009 £million
Sales	**22.11**	22.10
Profit before tax	**3.24**	4.49
Retained losses	**(1.71)**	(3.70)
Net assets	**25.66**	23.51

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

Following the trade sale of Patsystems plc to ION Group plc on 26 January the Company sold its shareholding receiving £164,000 of proceeds. Shares in Patsystems plc are no longer actively traded on the London Stock Exchange.

2ergo Group plc

Manchester
www.2ergo.com

Cost:	£197,000	
Valuation:	£114,000	
Date of Investment:	May 2011	
Equity held:	0.43%	
Valuation basis:	Quoted bid price	

Year ended 31 August	**2011 £million**	2010 £million
Sales	**17.67**	21.42
Loss before tax	**(2.80)**	(0.77)
Retained profits	**8.15**	10.60
Net assets	**23.69**	22.95

2ergo is a provider of marketing solutions via mobile devices which takes advantage of the significant increase in the use of smart phones in recent years. The company's operations focus on consulting, business solutions, content provision, connectivity services and managed services.

EKF Diagnostics Holdings plc

London
www.ekfdiagnostics.com

Cost:	£77,000	
Valuation:	£85,000	
Date of Investment:	July 2011	
Equity held:	0.15%	
Valuation basis:	Quoted bid price	

Year ended 31 December	**2011 £million**	2010 £million
Sales	**21.66**	6.48
EBITA	**(2.04)**	(1.93)
Loss before tax	**(2.36)**	(2.04)
Retained losses	**(5.65)**	(3.69)
Net assets	**37.43**	23.53

EKF is a provider of a wide range of diagnostic needs in clinical care, blood donor services and dialysis centres, recreation institutes, sports medicine and industrial applications. EKF's name consists of the first three letters of German words, Entwicklung (development), Konstruktion (construction) and Fertigung (production), which are the main business divisions. The EKF Diagnostics Group is a worldwide manufacturer of point of care equipment for the measurement of glucose, lactate, haemoglobin, hematocrit and glycated haemoglobin (HbA1c).

Tissuemed Limited

Leeds
www.tissuemed.com

Cost:	£48,000	
Valuation:	£60,000	
Dates of Investment:	December 2005 & March 2007	
Equity held:	1.63%	
Valuation basis:	Price of recent investment, reviewed for impairment	

Year ended 31 March	**2011 £million**	2010 £million
Sales	**0.56**	0.67
Loss before tax	**(0.76)**	(0.70)
Retained losses	**(16.65)**	(15.99)
Net assets	**2.92**	0.65

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

Brulines Group plc

Stockton-on-Tees
www.brulines.com

Cost:	£81,000	
Valuation:	£50,000	
Date of Investment:	October 2006	
Equity held:	0.24%	
Valuation basis:	Quoted bid price	
Dividends received:	£3,729 (2010: £2,554)	

Year ended 31 March	**2011 £million**	2010 £million
Sales	**24.28**	19.83
Profit before tax	**3.03**	4.04
Retained profits	**9.01**	7.64
Net assets	**22.44**	21.04

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

The company has remained relatively stable over the last six months with revenue marginally down to £11.79 million compared to £12.27 million. Profit before tax has dipped slightly to £1.62 million from £1.95 million over the six months to 30 September 2011.

Allergy Therapeutics plc

Worthing
www.allergytherapeutics.com

Cost:	£350,000	
Valuation:	£48,000	
Dates of Investment:	October 2004, April 2005, February 2007, September 2010, October 2010 and December 2010	
Equity held:	0.15%	
Valuation basis:	Quoted bid price	

Year ended 30 June	**2011 £million**	2010 £million
Sales	**41.55**	40.75
Loss before tax	**(2.31)**	(0.12)
Retained losses	**(100.29)**	(97.98)
Net assets	**2.14**	3.89

Allergy Therapeutics specialises in the treatment and prevention of allergies. Whilst good progress has been made in expanding sales, growth has been inhibited until such time as approval is gained from The Food and Drug Administration agency (FDA) for its key product.

Ellfin Home Care Limited

Oldham

Cost:	£317,000	
Valuation:	£43,000	
Dates of Investment:	December 2007, October 2008 and June 2010	
Equity held:	6.17%	
Valuation basis:	Earnings multiple	

Year ended 31 October	**2010 £million**	2009 £million
Sales	**3.89**	4.36
Loss before tax	**(0.52)**	(0.02)
Retained losses	**(0.63)**	(0.09)
Net (liabilities) assets	**(0.04)**	0.48

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.

Intelligent Recordings Limited

Chester
www.comvergent.co.uk

Cost:	£15	
Valuation:	£28,000	
Date of Investment:	September 2008	
Equity held:	10.50%	
Valuation basis:	Earnings multiple	

Year ended 31 December	**2010 £million**	2009 £million
Sales	**0.87**	0.82
Loss before tax	**(0.02)**	(0.01)
Retained losses	**(0.05)**	(0.36)
Net liabilities	**(0.04)**	(0.03)

Intelligent Recordings Limited delivers technical services to the telecommunications industry, in the areas of 2G and 3G radio and core networks, transmission solutions, public safety networks and consulting.

Fund Manager's Review

Introduction

Significant progress has been made during the year. The portfolio achieved a strong increase in value equivalent to 17.2% of its opening value with many businesses well positioned to see further increases over the coming year. The Company is also seeing a marked increase in investment activity levels and has successfully increased its investment capacity to be able to take advantage of opportunities as and when they arise.

There has been considerable further progress made by many of the businesses in the Company's portfolio in spite of a continuation of the challenging market conditions. Having made a substantial investment in additional sales resource at the start of the year Primal Pictures Limited has now proven the commercial market demand for its new educational product, a major step in repositioning the business as a provider of education services. Digital Healthcare Limited, with the support of the UK National Screening Council, has acquired the other significant diabetic retinal screening provider to consolidate services provided on a national basis. Bluebell Telecom Group Limited acquired another supplier of phone line services to UK businesses, Worldwide ISDN Limited, in order to achieve significant efficiency improvements. Deep-Secure Limited's products continue to make significant headway in their markets which is reflected in the increased valuation of £710,000 in the year. Waterfall Services Limited won a significant new contract to deliver meals to school children in the Sheffield area.

This year has seen the continued disposal of investments at values above carrying value although there were no significant exits during the year. The Company has continued to benefit from the sale of DxS Limited to Qiagen in 2009 with another £322,000 of deferred proceeds received in this year.

Investment activity levels have increased with 11 investments during the year totalling £2.78 million. A further four investments totalling £1.21 million have been made since the year end. Cash and gilt investments at 31 December 2011 were £5.69 million representing 35.8% of net assets, which compares to £4.49 million (37.9% of net assets) at 31 December 2010. The share subscription which was announced in October 2011 has been strongly supported, receiving £6.98 million. This puts the Company in a strong cash position to take advantage of the current increase in good investment opportunities and to continue to pay dividends in future years.

Portfolio Overview

Portfolio Performance

Overall, the quoted and unquoted portfolio increased by £3.27 million to a total of £10.21 million from £6.94 million. Netting off the new investments of £2,784,000 and carrying value of disposals of £574,000 from the opening December 2010 value, the net portfolio value movement over the year was an increase of £1.03 million. This breaks down into an increase in the value of the unquoted portfolio of £1.22 million and a fall in the value of the quoted portfolio of £186,000. Overall the portfolio remains well funded and positioned for value growth as economic conditions improve and current strategies are implemented to capitalise on the changing market conditions.

	Quoted and unquoted portfolio £000	Deferred proceeds £000	Total £000
Opening value	6,939	259	7,198
Additions	2,784	–	2,784
Valuation changes			
– Unquoted	1,219	–	1,219
– Quoted	(186)	–	(186)
Proceeds	(622)	(322)	(944)
Profit on disposal	75	128	203
31 December 2011	**10,209**	**65**	**10,274**

A further £322,000 of cash proceeds were generated from deferred consideration payments relating to the sale of DxS Limited to Qiagen which completed in 2009. These payments together with a further £65,000 of value assumed from DxS Limited in the future represented a profit of £128,000 over the December 2010 valuation (shown within debtors).

Including the deferred proceeds, the effective net movement in the opening December 2010 value of the Company's portfolio was an increase of £1,236,000. This can be broken down as follows:

	£000 2011	%
Unquoted	1,219	11.95
Quoted	(186)	(1.80)
Profit on disposal	75	0.70
Deferred proceeds	128	1.25
Total Value Movement	**1,236**	**12.10**

The unquoted portfolio as a whole continued to perform strongly with nine out of the 16 investments showing an uplift in value, three remaining flat and relatively minor value falls in the others. The key unrealised value movements relate to Deep-Secure Limited (up £710,000) which has now established a strong performance following the buyout of this high security communication software supplier where its products continue to gain increased market penetration. Sirigen Group Limited (up £400,000) has made considerable progress in co-developing products with a number of major international diagnostic groups. Digital Healthcare Limited (up £254,000) made a significant value enhancing step when it successfully acquired the other significant diabetic retinal screening supplier in the UK with support from the National Screening Council to help standardise services. Cognitive testing supplier, Cambridge Cognition Limited, also made strong progress (up £204,000) having established a profitable model supplying the clinical trials sector and with plans for a major product launch targeting the primary care providers. Immunobiology Limited (down £400,000) has experienced further delays in getting its vaccine technology into human trials, although further technical progress has been made.

The quoted portfolio saw a fall in value which reflects the movement in the market as a whole during the period. Both Patsystems plc (down £138,000) and Pressure Technologies plc (down £100,000) saw significant value falls following profit downgrades and 2ergo Group plc suffered a value fall (down £83,000) following a change in regulation relating to the marketing of mobile services to retail customers. Several other investees bucked this trend with value gains, in particular cloud computing specialist Iomart Group plc (up £87,000) following significant profit growth and a strategic acquisition.

In accordance with the requirements of IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. The outcome of this sensitivity analysis can be found in note 7 page 46 and note 19 page 54.

The investment portfolio held at the year end can be analysed into the following categories:

AIM Listed Investments:	
Non Qualifying	£1,279,037
Qualifying	£594,762
	£1,873,799
Non Listed Investments:	
Non Qualifying	£137,315
Qualifying	£8,197,593
	£8,334,908
Total Investments	**£10,208,707**

Investment Activity
During the year the Company made a total of 11 investments (£2.78 million), nine new investments and two follow-on investments into existing companies.

In July 2011, £400,000 was invested, alongside British Smaller Companies VCT plc, to support a proven management team in the buyout of Bagel Nash Limited. The strategy is to roll out the proven retail proposition across the North of England. In November 2011 the Company invested £500,000 into PowerOasis Limited a specialist provider of off grid power solutions for operators of mobile phone base stations. In December 2011 the Company invested £375,000 into TeraView Limited, a company specialising in the provision of innovative testing processes to the electronics sector. In September 2011 a £233,000 follow-on investment was made in high yielding preference shares in Waterfall Services Limited although strong cash generation enabled these to be redeemed three months later. The Company made additional follow-on investments totalling £191,000 into Sirigen Group Limited alongside a strong syndicate of institutional investors as management completed the technical development and began commercial sales of its innovative fluorescent marking products.

In addition to the above unquoted investments the Company made six investments into AIM listed companies totalling £1.08 million of new investments. At 31 December 2011 the total value of this portfolio had increased by £73,000.

The Company's investment policy is to build a diversified portfolio of investments in emerging businesses combined with later stage businesses that have the potential to deliver both income and capital growth. Investment levels, though higher than in 2010, have remained below historic levels but are expected to grow further in 2012. This can now be demonstrated by the four additional investments (£1.21 million) which have been made since the year end. The Company invested £700,000 in January 2012 as part of the management buyout of the retail display group Displayplan Holdings Limited from its US parent. In February 2012 a further £58,000 was invested into portfolio business Sirigen Group Limited as part of a £1 million internal growth capital round. In March 2012 £300,000 was invested as part of a £2 million buyout of Selima Limited, a supplier of payroll and expenses software predominantly to public sector customers. A further £148,000 was invested in March 2012 into quoted portfolio business EKF Diagnostics Holdings plc.

We will continue to invest into the portfolio to fund value growth and support commercialisation of technology.

Disposals
There were no significant disposals during the year as market conditions were not appropriate to maximise value in most sectors. In total the Company has received £622,000 in the year from the sale of investments. £292,000 was received following the partial disposal of preference shares held in Waterfall Services Limited using free cash generated from trading profits; £256,000 was received from the sale of AIM quoted Group NBT plc which was subject to a private equity backed buyout realising a profit of £59,000 (29.8%) over cost in just six months. The Company also took advantage of positive trading results at quoted portfolio company Optos plc to sell 30% of the Company's holding generating £74,000, a £16,000 profit on opening value and £50,000 profit on cost.

Deferred consideration of £322,000 was received during the year in respect of DxS Limited with the residual deferred payments due still being valued at £65,000 as a non-current asset on the Company's Balance Sheet at the year end.

A further £321,000 has been received since 31 December 2011 equating to a profit over the year end value of £10,000. The derivatives trading system supplier Patsystems plc was sold to trade competitor ION Group plc resulting in cash proceeds of £164,000. Also the Company's £140,000 remaining loan to Humber stevedore and logistics group RMS Group Holdings Limited has been repaid through a HSBC bank funded refinancing. In March the Company sold 7.25% of its holdings in quoted software group Tikit Group plc generating £17,000 of proceeds.

Performance History

The chart in the Financial Summary on page 4 shows how the Total Return of the Company, calculated by reference to the Net Asset Value per Ordinary share plus cumulative dividends paid per Ordinary share has developed over the years since its inception.

Conclusion and Outlook

The year under review has seen a continuation of some of the previous challenging market conditions. In spite of this there has been a general improvement in performance and valuations across the Company's portfolio.

Cash reserves remain strong and will be boosted with the funds raised from the new share issue, so the Company is well placed to take advantage of the gradually increasing investment rates, to continue to support the portfolio and maintain historic dividend levels.

David Hall
YFM Private Equity Limited
30 March 2012

Valuation of Investments

Initial Measurement

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

Subsequent Measurement

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

Unquoted Investments

- **Price of recent investment, reviewed for change in fair value.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply either a reduction or increase to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.

- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.

- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.

- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounting by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.

- **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

- **Industry valuation benchmarks.** Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.

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

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

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

Quoted Investments

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

Directors

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

Secretary and Registered Office

KHM Secretarial Services Limited
Old Cathedral Vicarage
St James Row
Sheffield
S1 1XA

Registered No: 03612770

Directors' Report
For the year to 31 December 2011

.The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2011.

Principal Activity

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

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

The Company operates as a venture capital trust ("VCT") and has been approved by HM Revenue & Customs as an authorised 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 Company's activities over the past twelve months and the outlook for future developments are included within the Chairman's Statement and Fund Manager's Review. The Company, in common with the VCT industry, did not have any employees during the year. The business and administrative duties of the Company are contracted to the Fund Manager, YFM Private Equity Limited, with the Board retaining key decision matters for approval. The Board manages the business affairs of the Company through regular management reports from its Fund Manager and, through this process, ensures that it has sufficient resources to carry out its functions and meet its strategic objectives.

Principal Risks, Risk Management and Regulatory Environment

The Board 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 under performance might lead to under performance and poor returns to Shareholders.

Loss of Approval as a VCT – 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 Act 2006, the rules of the UK Listing Authority and International Financial Reporting Standards as adopted by the European Union. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

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

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

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

Market – lack of liquidity in both the venture capital and public markets. Investment in AIM quoted 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 – the Company's investments may be difficult to realise. The fact that a share is quoted 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 its principal risks by setting policy, regularly reviewing performance and monitoring progress and compliance. In the mitigation and management of these risks, the Board applies rigorously the principles detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on page 28 and further information on exposure to risks including those associated with financial instruments is given in note 19a of the financial statements.

Key Performance Indicators

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

Total Return

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

The chart showing the Total Return of your Company is included within the financial summary on page 4. 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 Shareholders which was 80 pence per Ordinary share (net of 20% basic tax relief) and by comparison to the FTSE™ Small Cap 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 a further five specific tests that VCTs must meet following the initial three year provisional period:

Income Test
The Company's income in the period must be derived wholly or mainly from shares or securities. The Company complied with this test in the period, with 83.02% (2010: 98.1%) 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 0% (2010: 0%) of income being retained 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 investee companies. The Company complied with this test, with 81.40% (2010: 80.81%) 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 76.24% (2010: 76.46%) of value being in holdings of non-preferential Ordinary shares.

Maximum Single Investment Test
The value of any one investment has, at any time in the period, not represented more than 15% of the Company's total investment value. This is calculated at the time of investment and further additions and therefore cannot be breached passively. The Company has complied with this test with the highest such value being 10.70% (2010: 11.76%).

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

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

Results and Dividends

The Statement of Comprehensive Income is set out on page 36.

The profit before and after taxation for the year amounted to £1,040,000 (2010: £103,000 loss).

The revenue loss for the year amounted to £38,000 (2010: £10,000 profit). The capital profit for the year amounted to £1,078,000 (2010: £113,000 loss). This was due to the valuation of the investments.

The directors recommend the payment of a final dividend of 2.0p per Ordinary share (2010: 2.0p). A resolution to this effect will be proposed at the Annual General Meeting to be held on 11 May 2012.

The Net Asset Value per Ordinary share at 31 December 2011 was 68.5p (2010: 68.4p). The transfer to and from reserves is given in the Statement of Changes in Equity on page 38.

Share Capital

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

Issue and Buy-Back of Shares

At a Shareholders' meeting on 30 August 2011, the Shareholders voted in favour of re-introducing a share buy-back policy. This enables Shareholders to obtain some liquidity in an otherwise illiquid market where there is a need to dispose of stock. This policy is kept under review to ensure that any decisions taken are in the interests of Shareholders as a whole. In accordance with this policy the Company purchased during the year, under the 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 £208,439. 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 Ordinary share
1 April 2011	191,280	0.91%	58.25p
20 Sep 2011	87,450	0.37%	56.00p
19 Dec 2011	84,292	0.36%	57.00p

Under the existing authority, which expires on 30 August 2014, the Company has the power to purchase shares up to 14.99% of the Company's Ordinary share capital as at 27 July 2011, being 3,501,555 Ordinary shares.

On 22 March 2011 the Company issued 3,655,500 Ordinary shares at a price of 70.25 pence per Ordinary share, on 5 April 2011 the Company issued 1,921,901 Ordinary shares at 70.25 pence per Ordinary share, and on 4 May 2011 the Company issued 690,699 Ordinary shares at 70.25 pence per Ordinary share, all in connection with the joint offer for subscription for the tax years 2010/2011 and 2011/2012 made with British Smaller Companies VCT plc. On 4 August 2011 the Company issued 137,931 Ordinary shares at 72.5 pence per Ordinary share.

In addition to the above share issues, on 10 June 2011 the Company issued 3,762 Ordinary shares at 63.08 pence per Ordinary share, and on 8 September 2011 the Company issued 5,335 Ordinary shares at 62.70 pence per Ordinary share: both issues were pursuant to the Dividend Reinvestment Scheme.

The directors have unconditional authority to allot, grant rights to subscribe for or to convert security into shares in the Company until 28 February 2013 in connection with the following:

- the Offer for Subscription (which closes on 5 April 2012), up to an aggregate nominal amount of £2,400,000;
- an offer of shares by the way of a rights issue;
- an allotment of shares for cash up to an aggregate nominal amount of 10% of the issued Ordinary share capital of the Company immediately following the final closing of the Offer for Subscription (launched on 26 October 2011) ("the Offer") on 5 April 2012.

In addition, the directors have a separate unconditional authority to allot shares in the Company in connection with the Company's Dividend Reinvestment Scheme until 11 January 2016.

In order to ensure the directors retain the authority to allot shares in the Company (other than pursuant to its Dividend Reinvestment Scheme) until the Annual General Meeting in 2013, the authority to allot shares for cash up to an aggregate nominal amount representing approximately 10% of the issued Ordinary share capital of the Company immediately following the closing of the Offer on 5 April 2012, granted by Shareholders at a general meeting on 28 November 2011, is recommended for renewal at this year's Annual General Meeting (with all existing authorities to allot, other than the existing authority to allot pursuant to the Company's Dividend Reinvestment Scheme, being revoked).

Capital Disclosures

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

- the Company's capital structure is summarised in note 11; each Ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there are no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employee share scheme; 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 seek to settle accounts in accordance with those terms. Although the Company has no trade payables at the year end, the average number of trade payable days during the year was 22 (2010: 17).

Fund Manager

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

Environment

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

Directors and their Interests

The directors of the Company at 31 December 2011, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 33 to 34.

Substantial Shareholdings

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

Independent Auditor

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

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 58 to 60 of these financial statements.

The Ordinary business of the meeting includes a resolution (Resolution 7) to be proposed to authorise the directors to issue and allot new shares up to an aggregate nominal amount of £332,336 representing approximately 10% of the share capital of the Company in issue at the date of the Notice of the Annual General Meeting. The directors believe this to be in the Company's interest, as from time to time the Company is approached by persons interested in purchasing new shares and if so authorised the directors will be able to respond positively to such applications.

Also included is a special resolution (Resolution 8) proposed to empower the directors to allot shares up to an aggregate nominal amount of 10% of the issued share capital of the Company as at the date of the Notice of the Annual General Meeting, without regard to any rights of pre-emption on the part of the existing Shareholders.

VCT Status Monitoring

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

Events After the Balance Sheet Date

High current activity levels can be seen by the fact that several additional investments and realisations have already completed since the 31 December 2011 year end. The Company invested £700,000 in January 2012 as part of the management buyout of the retail display group Displayplan Holdings Limited from its US parent. In February 2012 a further £58,000 was invested into portfolio business Sirigen Group Limited as part of a £1 million internal growth capital round. In March 2012 £300,000 was invested as part of the £2 million buyout of Selima Limited, a supplier of payroll and expenses software predominantly to public sector customers. Also in March 2012 a further £148,000 was invested into EKF Diagnostics Holdings plc, a growing international diagnostics group. In January 2012 derivatives trading system provider, Patsystems plc, was sold to trade purchaser ION Group plc with the Company receiving £164,000 of cash proceeds from the sale of its shares. In March 2012 the Company's £140,000 remaining loan to Humber stevedore and logistics group RMS Group Holdings Limited was repaid as a result of a refinancing supported by the group's bank HSBC following further positive trading results. Also in March the Company sold 7.25% of its holding in quoted software group Tikit Group plc generating £17,000 of proceeds.

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements 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 a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

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

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 UK Corporate Governance Code, June 2010 (a copy of which can be found on the website of the Financial Reporting Council at www.frc.org.uk).

The Board has complied throughout the year, and up to the date of this report, with The UK Corporate Governance Code, except for those provisions relating to the appointment of a chief executive and a recognised senior independent non-executive director and those relating to the establishment of an independent Remuneration Committee, the Chairman acting as chairman of the Audit Committee, and the presumption concerning the Chairman's independence (see page 29).

Role of the Board

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

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

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

Board Composition

The Board consists of three non-executive directors, all of whom are regarded by the Board as independent and also as independent of the Company's Fund Manager, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although The UK Corporate Governance Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in the Company, are satisfied that Richard Last fulfils the criteria for independence as a non-executive director. The directors have a breadth of investment, business and financial skills and relevant experience to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 23.

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.

Tenure

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

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

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

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

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 Committee and Allotment Committee meetings attended by each director. There were no Nominations Committee meetings held in the year.

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

Director	R Last	P C Waller	R M Pettigrew
Telephone conference	6	7	6
Board meetings attended	7	6	5
Audit Committee meetings attended	2	2	2
Allotment Committee meetings attended	5	4	1
Total	**20**	**19**	**14**

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 legal and regulatory requirements that affect the Company and its directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to VCTs.

The performance of the Board has been evaluated in respect of the 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 UK Corporate Governance Code and included the attendance and participation at Board and Committee meetings, commitment to Board activities and the effectiveness of the contribution. Particular attention is paid to those directors who are due for re-appointment. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

The Chairman has confirmed that the performances of the directors being proposed for re-election continue to be effective and that they continue to show commitment to the role. The independent directors have similarly appraised the performance of the Chairman. They considered that the performance of Mr Richard Last continues to be effective and that he continues to demonstrate a commitment to the role.

Remuneration Committee

Due to the size of the Board and the remuneration procedures currently in place, in the directors' opinion, there is no role for an independent Remuneration Committee. The Directors' Remuneration Report may be found on pages 33 and 34.

Audit Committee

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

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

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

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

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

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

Nominations Committee

The Company has a Nominations Committee which consists of R Last, R M Pettigrew and P C Waller, all of whom 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

With regards to the allotment of new issues of shares, the Board generally operates through a Committee of any director which meets as and when required to formally approve the allotment of shares, unless it is an allotment of shares under the Company's Dividend Reinvestment Scheme ("DRIS"). Following a decision by the Board on 27 July 2011, allotments of shares under DRIS can be made by a Committee of one director.

Relations with Shareholders

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

All Shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Fund Manager are available in person to meet with and answer Shareholders' questions. In addition representatives of the Fund Manager periodically hold Shareholder workshops which review the Company's performance and industry developments, and which give Shareholders a further opportunity to meet members of the Board and CEO's of some of the investee companies. During the year the Company's broker and the Fund Manager have held regular discussions with Shareholders. The directors are made fully aware of their views. The Chairman and directors make themselves available as and when required to address Shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 23.

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

Internal Control and Risk Management

Under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010 and 26 October 2011, the executive functions of the Company have been subcontracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- a clearly defined investment strategy for YFM Private Equity Limited, the Fund Manager to the Company;
- all decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Fund Manager;
- regular reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure;
- regular reviews of compliance with the venture capital trust regulations to retain VCT status; and
- the Board receives copies of the Company's management accounts on a regular basis showing comparisons with budget. These include a report by the Fund Manager with a review of performance. Additional information is supplied on request.

The Board confirms that procedures to implement the guidance detailed in section C.2: "Risk Management & Internal Control" of The UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 were in place throughout the year ended 31 December 2011 and up to the date of this report.

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

The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than twice a year. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the Annual Report. The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review. The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the Turnball Guidance (being the Internal Control Guidance for Directors on the Combined Code October 2005).

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

Corporate Governance

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

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

Going Concern

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

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

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

Investment Policy

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

During the year the Company has targeted investments in UK businesses across a range of sectors including Industrial, Healthcare, Software, Electronics, Retail and Telecommunications in VCT qualifying unquoted and AIM quoted securities which, under the current 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 currently limited to £1 million and the average size of the Company's qualifying investment is £452,000 (2010: £513,000).

Following the Chancellor's Budget in March 2012 and the issue of the Draft Finance Bill 2012 on 6 December 2011 the investments undertaken by the Company will be subject to new legislation. The most significant change which will affect the investment policy is that:

- For investments made after 5 April 2012 the annual investment limit of £1 million that any single VCT can invest in a company will be removed, except where the company trades in partnership or through a joint venture.

In addition to the above (subject to EU approval) investment criteria changes have been made to the "qualifying company" limits effective from 5 April 2012. These are summarised as follows:

- the employee limit will increase from 50 to 250 for investee companies.
- an increase in the size threshold of gross assets to £15 million before investment from £7 million.
- the maximum amount that an investee company can receive from VCTs and any other State Aid sources is now proposed to be £5 million.

Such changes to the current legislation should increase the number of potential new investments available to the Company and help further diversify the portfolio.

Typically the Company invests alongside other venture capital funds, such syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Fund Manager's Review which accompanies this Annual Report.

The Fund Manager 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 and 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 quoted on AIM and when the decision is required urgently in which case the Chairman may act in consultation with the Fund Manager.

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

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

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, as Fund Manager, the portfolio is managed by Brewin Dolphin Securities Limited on a discretionary basis. The Board receives regular reports on the make-up and market valuation of this portfolio.

The Company will on occasion, in accordance with VCT legislation, invest surplus liquid resources in an AAA rated liquidity fund, which invests in a pool of highly rated money market securities. Reporting to YFM Private Equity Limited, the fund is managed by Prime Rate Capital LLP. The Board receives regular reports on the diversity and return of the fund's portfolio. At the year end £nil was held in this fund and £3.54 million was held in an interest bearing account with The Royal Bank of Scotland Plc.

Financial Instruments

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

Financial Assets

Investments made in suitable qualifying holdings will predominantly comprise ordinary shares with, in some instances, either fixed rate coupon preference shares or debenture loans. Each investment is valued in accordance with the policy set out on page 22 of this Annual Report. Investments in fixed interest Government securities are valued at their market value as at the Balance Sheet Date.

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

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

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

Details of financial assets held at 31 December 2011 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 30 March 2012 and signed on its behalf by

Richard Last

Richard Last
Chairman

Directors' Remuneration Report

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

Directors and their Interests

The directors of the Company at 31 December 2011 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as follows:

	Number of Ordinary shares at	
	31 December 2011	31 December 2010
R Last	**43,987**	36,870
R M Pettigrew	**41,858**	37,524
P C Waller	**7,224**	–

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

During the year R M Pettigrew subscribed for 7,375 Ordinary shares and P C Waller subscribed for 7,482 Ordinary shares pursuant to the Offer for Subscription (further details of which are set out in the Chairman's Statement) ("the Offer"). These subscriptions were approved and the aforementioned numbers were allocated to Messrs Pettigrew and Waller on 5 January 2012.

In addition to the above, the directors have committed since the year end to subscribe for the following new Ordinary shares under the Offer, which were allotted on 20 March 2012.

	Number of Ordinary shares
R Last	71,985
R M Pettigrew	–
P C Waller	–

Brief biographical notes on the directors are given on page 23. In accordance with the Company's Listing Particulars, no director has a contract of service with the Company that entitles him to any benefit other than the remuneration disclosed below and no contract subsisted during or at the end of the year in which any director was materially interested and which was significant in relation to the Company's business. The Company does not offer compensation for loss of office when a director leaves office.

The Company had no employees in the year, or in 2010.

Administration

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

Under the Subscription Rights Agreement dated 28 November 2000, YFM Private Equity Limited and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary share exceeds 120p per Ordinary share on that same day multiplied by the number of Ordinary shares in issue and the shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity Limited and Generics Asset Management Limited as amended by an agreement between those parties dated 31 October 2005. No shares have been issued in 2011 or 2010 under this agreement. By a Deed of Assignment dated 19 December 2004 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity Limited subscription right was assigned to YFM Private Equity Limited Trust, an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies.

Pursuant to the publication on 27 October 2011 of the Offer for Subscription Prospectus arrangements will be put in place in order that the benefit of the subscription rights are extended to include all of the shares issued by the Company under the Offer.

Basic Remuneration (audited)

Total directors' remuneration for the year amounted to £67,500 (2010: £67,500) all of which was paid to three (2010: four) individuals for services as directors and none of which was paid to third parties in respect of directors' services.

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

	2011 £	2010 £
R Last	**31,500**	31,500
R M Pettigrew	**18,000**	18,000
P S Cammerman (resigned 22.9.10)	**–**	13,500
P C Waller (appointed 1.10.10)	**18,000**	4,500
	67,500	67,500

There are no executive directors (2010: none).

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

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

Remuneration Policy

The Board's policy is that the remuneration of non-executive Directors should reflect time spent and the responsibility borne by the Directors on the Company's affairs and should be sufficient to enable candidates of high calibre to be recruited. The levels of Directors' fees paid by the Company for the year ended 31 December 2011 were agreed during the year.

The Company's policy is to pay Directors monthly in arrears, to the Directors personally or to a third party as requested by any Director.

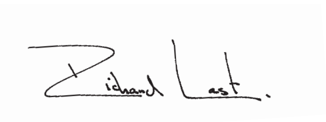
Performance Graphs

The graphs opposite show a comparison between the Company's total Shareholder return compared with the companies in the FTSE™ Small Cap Share Index from the date of flotation, 12 April 2001, to 31 December 2011. The directors consider this to be the most appropriate published index on which to report on comparative performance which given the focus of your Company's investments are invariably in relatively early stage unquoted companies.

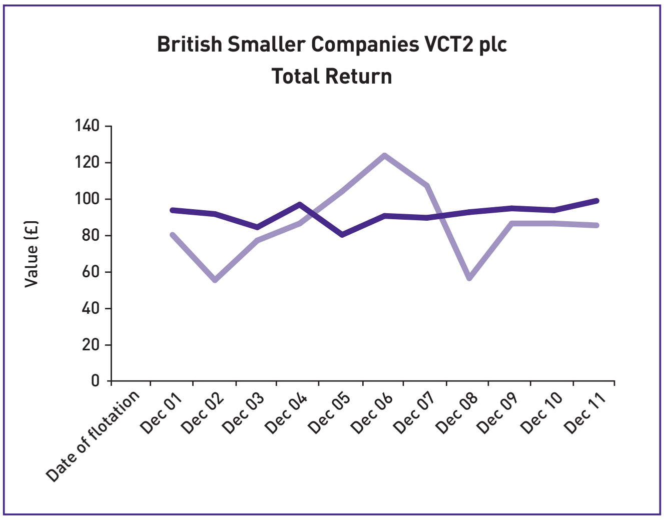
The first graph looks at the Total Return, calculated by reference to the Net Asset Value and cumulative dividends paid (see note 13 of these financial statements) of £100 invested in the Company's Ordinary shares, excluding tax relief, with the value of £100 invested in the FTSE™ Small Cap Share Index over the same period.

The second graph displays the Total Return per Ordinary share from the date of flotation, 12 April 2001 to 31 December 2011 compared to the FTSE™ Small Cap Share Index. It shows that at 31 December 2011 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 £71, which is compared with the Total Return of £86 that would have been achieved if invested in FTSE™ Small Cap Share Index. This assumes that at the time of flotation the tax relief given on the £100 investment was also invested in Ordinary shares of the Company. Therefore this graph shows the share price return based on an 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 re-invested in the Company's Ordinary shares at the prevailing quoted share price at the end of the financial period to which the dividends relate.

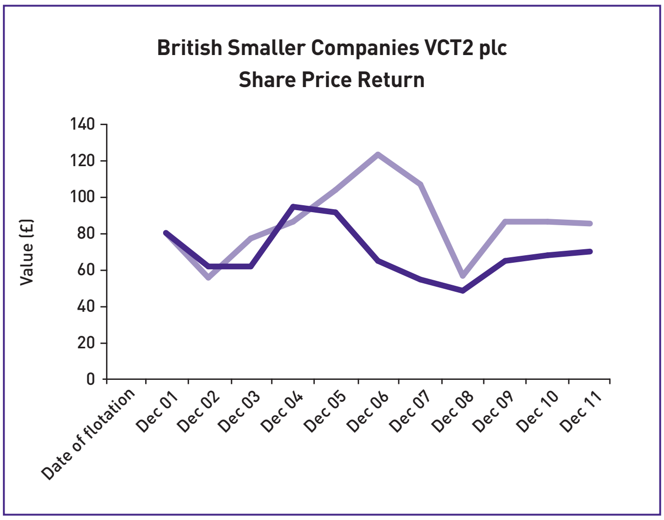
This report was approved by the Board on 30 March 2012 and signed on its behalf



Richard Last
Chairman



British Smaller Companies VCT2 plc Total Return
FTSE™ Small Cap Share Index



British Smaller Companies VCT2 plc Share Price
FTSE™ Small Cap Share Index

Independent Auditor's Report

To the members of British Smaller Companies VCT2 plc

We have audited the financial statements of British Smaller Companies VCT2 plc for the year ended 31 December 2011, which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the Directors' Statement, set out on page 31, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2010 UK Corporate Governance Code specified for our review; and
- certain elements of the report to the Shareholders by the Board on directors' remuneration.

Paul Houghton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield
30 March 2012

Statement of Comprehensive Income

For the year to 31 December 2011

	Notes	2011			2010		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments	7	–	225	225	–	370	370
Profit (losses) on investments held at fair value	7	–	1,112	1,112	–	(252)	(252)
Income	2	349	–	349	321	–	321
Administrative expenses:							
Fund Management fee		(86)	(259)	(345)	(77)	(231)	(308)
Other expenses		(301)	–	(301)	(234)	–	(234)
	3	(387)	(259)	(646)	(311)	(231)	(542)
Profit (loss) before taxation		(38)	1,078	1,040	10	(113)	(103)
Taxation	4	–	–	–	–	–	–
Profit (loss) for the year		(38)	1,078	1,040	10	(113)	(103)
Total comprehensive income for the year		(38)	1,078	1,040	10	(113)	(103)
Basic and diluted earnings (loss) per Ordinary share	6	(0.17)p	4.92p	4.75p	0.06p	(0.65)p	(0.59)p

The accompanying notes on pages 40 to 56 are an integral part of these financial statements.

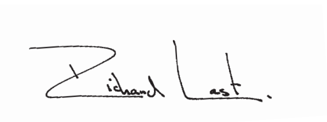
The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The supplementary revenue and capital columns are prepared under the Statement of Recommended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

Balance Sheet
At 31 December 2011

	Notes	2011 £000	2010 £000
Assets			
Non-current assets			
Investments		**10,209**	6,939
Fixed income government securities		**1,618**	3,980
Financial assets at fair value through profit or loss	7	**11,827**	10,919
Trade and other receivables	8	**65**	259
		11,892	11,178
Current assets			
Trade and other receivables	8	**242**	193
Cash and cash equivalents	9	**4,076**	509
		4,318	702
Liabilities			
Current liabilities			
Trade and other payables	10	**(228)**	(51)
Net current assets		**4,090**	651
Net assets		**15,982**	11,829
Shareholders' equity			
Share capital	11	**2,426**	1,785
Share premium account		**4,427**	810
Capital redemption reserve		**88**	88
Other reserve		**2**	2
Merger reserve		**5,525**	5,525
Capital reserve		**2,630**	3,587
Investment holding (losses) gains		**(3,665)**	(4,763)
Special reserve		**4,255**	4,463
Revenue reserve		**294**	332
Total Shareholders' equity		**15,982**	11,829
Net asset value per Ordinary share	12	**68.5p**	68.4p

The accompanying notes on pages 40 to 56 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of directors and were signed on its behalf on 30 March 2012 by



Richard Last
Chairman

Statement of Changes in Equity

For the year to 31 December 2011

	Share capital £000	Share premium account £000	*Other reserves £000	Merger reserve £000	Capital reserve £000	Investment holding (losses) gains £000	Special reserve £000	Revenue reserve £000	Total equity £000
Balance at 31 December 2009	**1,664**	**69**	**90**	**5,525**	**4,442**	**(4,802)**	**4,786**	**332**	**12,106**
Revenue return for the year	–	–	–	–	–	–	–	10	10
Capital expenses	–	–	–	–	(231)	–	–	–	(231)
Investment holding loss on investments held at fair value	–	–	–	–	–	(252)	–	–	(252)
Realisation of investments in the year	–	–	–	–	370	–	–	–	370
Total comprehensive income for the year	–	–	–	–	139	(252)	–	10	(103)
Issue of share capital	121	792	–	–	–	–	–	–	913
Issue costs	–	(51)	–	–	–	–	–	–	(51)
Purchase of own shares	–	–	–	–	–	–	(323)	–	(323)
Dividends	–	–	–	–	(703)	–	–	(10)	(713)
Total transactions with owners	121	741	–	–	(703)	–	(323)	(10)	(174)
Realisation of prior year investment holding gains	–	–	–	–	(291)	291	–	–	–
Balance at 31 December 2010	**1,785**	**810**	**90**	**5,525**	**3,587**	**(4,763)**	**4,463**	**332**	**11,829**
Revenue return for the year	–	–	–	–	–	–	–	(38)	(38)
Capital expenses	–	–	–	–	(259)	–	–	–	(259)
Investment holding gain on investments held at fair value	–	–	–	–	–	1,112	–	–	1,112
Realisation of investments in the year	–	–	–	–	225	–	–	–	225
Total comprehensive income for the year	–	–	–	–	(34)	1,112	–	(38)	1,040
Issue of share capital	640	3,862	–	–	–	–	–	–	4,502
Issue costs	–	(250)	–	–	–	–	–	–	(250)
Purchase of own shares	–	–	–	–	–	–	(208)	–	(208)
Issue of shares – DRIS	1	5	–	–	–	–	–	–	6
Dividends	–	–	–	–	(937)	–	–	–	(937)
Total transactions with owners	641	3,617	–	–	(937)	–	(208)	–	3,113
Realisation of prior year investment holding gains	–	–	–	–	14	(14)	–	–	–
Balance at 31 December 2011	**2,426**	**4,427**	**90**	**5,525**	**2,630**	**(3,665)**	**4,255**	**294**	**15,982**

The accompanying notes on pages 40 to 56 are an integral part of these financial statements.

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

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

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

The special reserve, capital reserve and revenue reserve are all distributable reserves. These reserves total £7,179,000 (2010: £8,382,000) representing a decrease of £1,203,000 (2010: £1,178,000 decrease) during the year. This change arises from the revenue loss in the year of £38,000 (2010: £10,000 profit), movements in the investment holding (losses) gains reserve of £20,000 loss (2010: £152,000 loss), dividends of £937,000 (2010: £713,000) and purchase of shares of £208,000 (2010: £323,000). The directors also take into account the level of the investment holding (losses) gains reserve when determining the level of dividend payments.

Statement of Cash Flows

For the year to 31 December 2011

	Notes	2011 £000	2010 £000
Net cash outflow from operating activities	14	**(174)**	(312)
Cash flows from (used in) investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(3,970)**	(3,135)
Proceeds from sale of financial assets at fair value through profit or loss	7	**4,276**	1,525
Deferred consideration		**322**	301
Net cash from (used in) investing activities		**628**	(1,309)
Cash flows from (used in) financing activities			
Issue of share capital		**4,502**	913
Issue costs		**(250)**	(51)
Purchase of own shares		**(208)**	(323)
Dividends paid		**(931)**	(713)
Net cash from (used in) financing activities		**3,113**	(174)
Net increase (decrease) in cash and cash equivalents		**3,567**	(1,795)
Cash and cash equivalents at the beginning of the year		**509**	2,304
Cash and cash equivalents at the end of the year	9, 15	**4,076**	509

The accompanying notes on pages 40 to 56 are an integral part of these financial statements.

Notes to the Financial Statements

For the year to 31 December 2011

1. Principal Accounting Policies

Basis of Preparation

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

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

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

The financial statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. None of the standards and amendments to standards mandatory for the first time for the financial year commencing 1 January 2011 have had an impact on the preparation of the financial statements.

Other standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these financial statements. These include amendments to IFRS 9, IFRS 10, IFRS 11, IFRS 12, IFRS 13 and IFRIC 20. 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.

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 with appropriate discounts made for holdings in companies that are not actively traded.

Unquoted investments are valued in accordance with IAS 39 'Financial instruments: Recognition and Measurement' and, where appropriate, the International Private Equity and Venture Capital (IPEVC) Valuation Guidelines issued in September 2010. A detailed explanation of the valuation policies of the Company is included on page 22.

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 required 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.

The Company does not hold more than 50% of the equity of any of the companies within its portfolio. In addition, the Company does not control any of the companies held as part of its 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.

1. Principal Accounting Policies (continued)

Income

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

Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the revenue column of the Statement of Comprehensive Income, except for fund management 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 capital using a marginal basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash at hand and investments in high quality AAA rated liquidity funds. These funds are classified under cash equivalents as they meet the definition in IAS 7 'Cash flow statements' of a short-term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

Capital Reserve

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

Investment Holding (Losses) Gains Reserve

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

Special Reserve

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

Taxation

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

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

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

Foreign Exchange

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

Dividends Payable

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

Segmental Reporting

In accordance with IFRS 8 and the criteria for aggregating reportable segments the directors are of the opinion that the Company has engaged in a single reportable segment of investing in equity and debt securities and therefore no segmental reporting is provided.

1. Principal Accounting Policies (continued)

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 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

	2011 £000	2010 £000
Income from investments		
– Dividends from unquoted companies	**11**	6
– Dividends from AIM quoted companies	**37**	22
	48	28
– Interest on loans to unquoted companies	**146**	117
– Fixed interest Government securities	**88**	162
Income from investments held at fair value through profit or loss	**282**	307
Interest on bank deposits	**67**	14
	349	321

3. Administrative Expenses

	2011 £000	2010 £000
Fund management fee	**345**	308
Other expenses:		
Administration fee (including irrecoverable VAT)	**54**	52
Directors' remuneration (comprises only short term benefits including social security contributions)	**75**	68
Auditor's remuneration – audit fees (excluding irrecoverable VAT)	**17**	16
General expenses	**155**	98
	646	542

Auditor's Remuneration

	2011 £000	2010 £000
Audit fees (excluding irrecoverable VAT)	**17**	16
Services relating to corporate finance transactions	**–**	6
	17	22

No fees are payable to the auditor in respect of other services supplied pursuant to legislation (2010: £6,250). The 2010 fees relate to a service supplied in the prior year in respect of a Prospectus document issued.

3. Administrative Expenses (continued)

YFM Private Equity Limited provides fund management services to the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010 and 26 October 2011. The agreement may be terminated by not less than twelve months' notice given by either party at any time.

The key features of the agreement are:

- YFM Private Equity Limited receives a fund management fee, payable quarterly in advance, at the rate of 2.5% of Net Asset Value, calculated at half-yearly intervals as at 30 June and 31 December. The fund management fee is allocated between capital and revenue as described in note 1;
- Pursuant to a deed of variation dated 26 October 2011 the management fee will be reduced to 1.25% per annum in respect of any Net Asset Value of the Company in excess of £16 million and up to £26.667 million and to 2.0% in respect of any Net Asset Value of the Company in excess of £26.667 million;
- Pursuant to the same deed of variation, if the Net Asset Value of the Company exceeds £20 million, YFM Private Equity Limited shall bear the annual operating costs of the Company (including the management fee set out above but excluding any payment of the performance incentive fee, details of which are set out below and excluding VAT and trail commissions) to the extent that those costs exceed 3.5% of the Net Asset Value of the Company; and
- Under the same agreement YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue.

The total remuneration payable to YFM Private Equity Limited in the period was £399,000 (2010: £360,000).

Under the Subscription Rights Agreement dated 28 November 2000 (assigned as described on page 33), YFM Private Equity Limited and Generics Asset Management Limited have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue of Ordinary shares in the Company) equivalent to 20% of the amount by which the cumulative cash dividends paid as at the last business day in December in any year plus the average of the middle market quotation per Ordinary share exceeds 120p per Ordinary share on that same day multiplied by the number of Ordinary shares in issue and the shares under option (if any). The subscription rights are exercisable in the ratio 59:41 between YFM Private Equity Limited and Generics Asset Management Limited as amended by an agreement between those parties dated 31 October 2005. No shares have been issued in either year under this agreement.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 33 under the heading "Basic Remuneration".

4. Taxation

	2011			2010		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Corporation tax at 20% (2010: 21%)	**–**	**–**	**–**	–	–	–
Profit (loss) before taxation	**(38)**	**1,078**	**1,040**	10	(113)	(103)
Profit (loss) before taxation multiplied by standard small company rate of corporation tax in UK of 20% (2010: 21%)	**(8)**	**216**	**208**	2	(24)	(22)
Effect of:						
UK dividends received	**(10)**	**–**	**(10)**	(6)	–	(6)
Non taxable profits on investments	**–**	**(267)**	**(267)**	–	(24)	(24)
Excess management expenses	**18**	**51**	**69**	4	48	52
Tax charge (credit)	**–**	**–**	**–**	–	–	–

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

Deferred tax assets of £452,000 calculated at 20% (2010: £406,000 calculated at 21%) in respect of unrelieved management expenses (£2.262 million as at 31 December 2011) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

Due to the Company's status as a venture capital trust and the continued intention to meet with the conditions required to comply with Section 274 of the Income Tax Act 2007, the Company has not provided for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

5. Dividends

Amounts recognised as distributions to equity holders in the period:

	2011			2010		
	Revenue £000	**Capital £000**	**Total £000**	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2010 of 2.0p (2009 year end: 2.0p) per Ordinary share	**–**	**467**	**467**	–	356	356
Interim dividend for the year ended 31 December 2011 of 2.0p (2010: 2.0p) per Ordinary share	**–**	**470**	**470**	10	347	357
	–	**937**	**937**	10	703	713

A final dividend of 2.0p per Ordinary share in respect of the year to 31 December 2011 is proposed. This dividend has not been recognised in the year ended 31 December 2011 as the obligation did not exist at the balance sheet date.

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 Shareholders of £1,040,000 (2010: £103,000 loss) and 21,906,793 (2010: 17,449,179) Ordinary shares being the weighted average number of Ordinary shares in issue during the year.

The basic and diluted revenue (loss) earnings per Ordinary share is based on the loss for the year attributable to Shareholders of £38,000 (2010: £10,000 profit) and 21,906,793 (2010: 17,449,179) Ordinary shares being the weighted average number of Ordinary shares in issue during the year.

The basic and diluted capital earnings (loss) per Ordinary share is based on the capital profit for the year attributable to Shareholders of £1,078,000 (2010: £113,000 loss) and 21,906,793 (2010: 17,449,179) Ordinary shares being the weighted average number of Ordinary shares in issue during the year.

During the year the Company issued 6,415,128 Ordinary shares. The Company has also repurchased 363,022 of its own shares which are held in treasury. The treasury shares have been excluded in calculating the weighted average number of Ordinary shares for the period that they were treasury shares.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out in Note 3. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2011 or 31 December 2010. Consequently, basic and diluted earnings per Ordinary share, basic and diluted revenue return per Ordinary share and basic and diluted capital return per Ordinary share are the same for the years ended 31 December 2011 and 31 December 2010.

7. Financial Assets at Fair Value Through Profit or Loss

IFRS 7, in respect of financial instruments that are measured in the balance sheet at fair value, requires disclosure of fair value measurements by level 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 quoted investments or government securities classified as held at fair value through profit or loss.

- **Level 2:** the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company held no such instruments in the current or prior year.

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

- **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 (2010: 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 December 2011 are summarised as follows:

IFRS 7 measurement classification	Level 3*	Level 3*	Level 1		Level 1	
	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	7,527	1,563	1,403	**10,493**	3,974	**14,467**
Opening investment holding (loss) gain	(3,097)	(290)	(167)	**(3,554)**	6	**(3,548)**
Opening fair value at 1 January 2011	**4,430**	**1,273**	**1,236**	**6,939**	**3,980**	**10,919**
Additions at cost	1,326	374	1,079	**2,779**	1,191	**3,970**
Capitalised interest	–	5	–	**5**	–	**5**
Disposal proceeds	(292)	–	(330)	**(622)**	(3,654)	**(4,276)**
Net profit on disposal	–	–	75	**75**	22	**97**
Change in fair value in the year on assets held at 31 December 2011	948	271	(186)	**1,033**	79	**1,112**
Closing fair value at 31 December 2011	**6,412**	**1,923**	**1,874**	**10,209**	**1,618**	**11,827**
Closing cost	7,198	1,941	2,251	**11,390**	1,523	**12,913**
Closing investment holding (loss) gain	(786)	(18)	(377)	**(1,181)**	95	**(1,086)**
Closing fair value at 31 December 2011	**6,412**	**1,923**	**1,874**	**10,209**	**1,618**	**11,827**

*All of the changes in fair value during the year to level 3 investments relate to assets held at the year end.

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

Movements in investments at fair value through profit or loss during the year to 31 December 2010 are summarised as follows:

IFRS 7 measurement classification	Level 3*	Level 3*	Level 1		Level 1	
	Unquoted Equity Investments £000	Unquoted Loan Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	7,352	2,174	1,164	**10,690**	3,323	**14,013**
Opening investment holding (loss) gain	(3,285)	(1,074)	(176)	**(4,535)**	59	**(4,476)**
Opening fair value at 1 January 2010	**4,067**	**1,100**	**988**	**6,155**	**3,382**	**9,537**
Additions at cost	929	190	239	**1,358**	1,777	**3,135**
Disposal proceeds	(205)	(189)	–	**(394)**	(1,131)	**(1,525)**
Net profit (loss) on disposal	–	44	–	**44**	(20)	**24**
Change in fair value in the year on assets held at 31 December 2010	(361)	128	9	**(224)**	(28)	**(252)**
Closing fair value at 31 December 2010	**4,430**	**1,273**	**1,236**	**6,939**	**3,980**	**10,919**
Closing cost	7,527	1,563	1,403	**10,493**	3,974	**14,467**
Closing investment holding (loss) gain	(3,097)	(290)	(167)	**(3,554)**	6	**(3,548)**
Closing fair value at 31 December 2010	**4,430**	**1,273**	**1,236**	**6,939**	**3,980**	**10,919**

*All of the changes in fair value during the year to level 3 investments relate to assets held at the year end.

The closing cost of the unquoted loan instruments was incorrectly stated in the prior period. It is restated and reduced by £483,000 to reflect loans written off during the prior period. An equal and opposite restatement is made to the closing investment losses carried forward. The net effect of the restatement is nil. Similarly the closing cost of unquoted equity investments is increased by £483,000 and the holding losses carried forward are increased by the same amount.

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

	Level 1 £000	Level 3 £000	**Total £000**
Opening fair value at 1 January 2011	5,216	5,703	**10,919**
Additions at cost	2,270	1,705	**3,975**
Disposal proceeds	(3,984)	(292)	**(4,276)**
Net profit on disposal	97	–	**97**
Change in fair value in the year on assets held at 31 December 2011	(107)	1,219	**1,112**
Closing fair value at 31 December 2011	3,492	8,335	**11,827**

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

The Standard requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. The portfolio has been reviewed and both downside and upside possible alternatives have been identified and applied to the valuation of each of the unquoted investments. Applying the downside alternatives the value of the unquoted investments would be £789,000 or 7.7% lower. Using the upside alternative the value would be increased by £1.31 million or 12.8%.

The total of fair value adjustments below cost made against unquoted investments during the year ended 31 December 2011 amounted to £9,000 (2010: £1,224,000).

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

There were no individual reductions in fair value during the year that exceeded 5% of the total assets of the Company. In 2010 there were also no individual reductions.

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

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

	Net proceeds from sale £000	**Cost £000**	**Opening carrying value as at 1 January 2011 £000**	**Profit on disposal £000**
Optos plc	74	34	58	16
Group NBT plc	256	197	–	59
Waterfall Services Limited	292	292	292	-
	622	**523**	**350**	**75**
Deferred proceeds:				
DxS Limited (received in the year)	322	–	259	63
DxS Limited (deferred consideration included in receivables)	65	–	–	65
Total proceeds from quoted and unquoted investments	**387**	**–**	**259**	**128**
Fixed Income Securities	3,654	3,634	3,632	22
Total	**4,663**	**4,157**	**4,241**	**225**

The Company may become entitled to receive up to $564,000 (2010: $1,283,000) in respect of the sale of DxS Limited over the period to 2015, $188,000 in relation to escrow accounts regarding potential liabilities and the remainder subject to DxS Limited achieving specific performance milestones. At the year-end £65,000 (2010: £259,000) was included within non-current receivables in respect of this deferred consideration.

The following disposals took place in 2010 (all companies are unquoted except where otherwise indicated):

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

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

Significant Interests

At 31 December 2011 the Company held a significant holding of at least 20% of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No. of shares	Description of shares held	Percentage of class held by the Company	Percentage of class held by commonly managed funds
Bagel Nash Limited	Retail baker	26,286	Ordinary	5%	40%
Deep-Secure Limited	Security software	50,000	Ordinary	6%	45%
Digital Healthcare Limited	Healthcare	3,137,345	Ordinary	25%	–
Ellfin Home Care Limited	Healthcare	27,259	Ordinary	6%	74%
Harvey Jones Holdings Limited	Manufacture/distribution	38,858	Ordinary	3%	30%
Primal Pictures Limited	Medical information	350,640	Ordinary	17%	21%
RMS Group Holdings Limited	Stevedoring/logistics	64,619	Ordinary	3%	24%
Waterfall Services Limited	Healthcare	25,010	Ordinary	5%	23%

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

The Company's Fund Manager also acts as fund manager to certain other funds under its management that have also invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised below. The amounts shown are the investments made at cost as at 31 December 2011 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT plc £000	North West Business Investment Scheme £000	YFM Equity Partners Limited £000	The Chandos Fund £000	Total £000	Total for this Company £000
Bagel Nash Limited	607	–	–	2,531	3,138	405
Bluebell Telecom Group Limited	500	–	–	–	500	500
Brulines Group plc	163	–	–	–	163	81
Cambridge Cognition Limited	325	–	–	–	325	240
Deep-Secure Limited	1,000	–	–	2,000	3,000	500
Digital Healthcare Limited	–	–	22	–	22	3,072
EKF Diagnostics Holdings plc	313	–	–	–	313	77
Ellfin Home Care Limited	823	1,098	–	1,774	3,695	317
Harvey Jones Holdings Limited	777	–	–	2,234	3,011	389
Patsystems plc	222	–	–	–	222	317
PowerOasis Limited	375	–	–	1,000	1,375	500
Pressure Technologies plc	425	–	–	–	425	300
Primal Pictures Limited	468	–	20	–	488	897
RMS Group Holdings Limited	540	–	–	750	1,290	210
Silistix Limited	–	1,155	–	–	1,155	1,364
Tikit Group plc	181	–	–	–	181	198
TeraView Limited	375	–	–	–	375	375
Waterfall Services Limited	767	–	–	–	767	192

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.

8. Trade and Other Receivables

	2011 £000	2010 £000
Non-current assets:		
Accrued income	**65**	259
Current assets:		
Trade receivables	**82**	32
Less: Allowances for credit losses on trade receivables	**(42)**	–
Prepayments and accrued income	**202**	161
	242	193
Allowance for credit losses on trade receivables:		
Allowances as at 1 January	**–**	296
Additions – charged to Statement of Comprehensive Income	**42**	–
Write offs	**–**	(296)
Allowances as at 31 December	**42**	–

Trade receivables are assessed for reduction in fair value when older than 90 days or where there is reasonable doubt that payment will be received in due course. As of 31 December 2011, trade receivables of £40,000 (2010: £32,000) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2011 £000	2010 £000
1 – 3 months	**40**	32
3 – 6 months	**–**	–
More than 6 months	**–**	–

As of 31 December 2011, there was £42,000 of trade receivables (2010: £nil) impaired and provided for. The ageing of these receivables is as follows:

	2011 £000	2010 £000
1 – 3 months	**10**	–
3 – 6 months	**11**	–
6 – 12 months	**21**	–
More than 12 months	**–**	–

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

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £40,000 (2010: £32,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2011 £000	2010 £000
Cash at bank	**528**	509
Cash held in liquidity funds	**3,548**	–
	4,076	509

10. Trade and Other Payables

	2011 £000	2010 £000
Amounts payable within one year:		
Accrued expenses	**228**	51
	228	51

11. Called-up Share Capital

	2011		2010	
	Authorised £000	Allotted, Called-up and Fully paid £000	Authorised £000	Allotted, Called-up and Fully paid £000
Ordinary shares of 10p				
Authorised: 50,000,000 (2010: 50,000,000)	**5,000**		5,000	
Issued: 24,259,924 (2010: 17,844,796) including 929,122 shares held in treasury (2010: 566,100)		**2,426**		1,785

The movement in the year was as follows:

	Date	Number of shares	Share Capital £000
Total as at 1 January 2011		17,844,796	1,785
Issue of shares	22 March 2011	3,655,500	366
Issue of shares	5 April 2011	1,921,901	192
Issue of shares	4 May 2011	690,699	69
Issue of shares	10 June 2011	3,762	–
Issue of shares	4 August 2011	137,931	14
Issue of shares	8 September 2011	5,335	–
As at 31 December 2011 (including treasury shares)		**24,259,924**	**2,426**

During the year the Company purchased 363,022 (2010: 566,100) of its own shares and these shares are held in treasury on the Balance Sheet. Full details of the share purchases are set out in the Directors' Report under the heading "Issue and Buy-Back of Shares". The treasury shares have been included in calculating the number of Ordinary shares in issue at 31 December 2011.

The Company is party to a share based payment arrangement as defined by IFRS 2 'Share based payments'. The details of the arrangement are explained in the "Administration" section of the Directors' Remuneration Report on page 33. As the arrangement was entered into prior to 7 November 2002, the Company is not required to account for the arrangement under IFRS 2. No shares have been issued to date under this arrangement.

12. Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per Ordinary share is calculated on attributable assets of £15,982,000 (2010: £11,829,000) and 23,330,802 (2010: 17,278,696) Ordinary shares in issue at the year end.

The treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 December 2011.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the investment management agreement as set out in note 3. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2011 or 31 December 2010. Consequently, basic and diluted Net Asset Value per Ordinary share is the same for the year ended 31 December 2011 and 31 December 2010.

13. Total Return per Ordinary Share

The Total Return per Ordinary share is calculated on cumulative dividends paid of 30.0 pence per Ordinary share (2010: 26.0 pence per Ordinary share) plus the Net Asset Value as calculated per note 12.

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

	2011 £000	2010 £000
Profit (loss) before taxation	**1,040**	(103)
Increase (decrease) in trade and other payables	**177**	(90)
Increase in trade and other receivables	**(49)**	(1)
Gains on disposal of investments in the year	**(225)**	(370)
(Profit) losses on investments held at fair value	**(1,112)**	252
Capitalised interest	**(5)**	–
Net cash outflow from operating activities	**(174)**	(312)

Cash movements above include the following:

	2011 £000	2010 £000
Dividends received	**48**	28
Interest received		
– gilt interest	**133**	153
– deposit interest	**8**	16
Total interest	**189**	197

15. Analysis of Changes in Cash and Cash Equivalents

	1 January 2011 £000	Cash flow £000	**31 December 2011 £000**
Cash at bank	509	19	**528**
Cash held in liquidity funds	–	3,548	**3,548**
	509	3,567	**4,076**

16. Financial Commitments

At 31 December 2011 the Board had committed a total of £2,280,000 for investment into new portfolio companies. Of this amount £58,000 had been committed to Sirigen Group Limited as part of a £1 million internal growth capital round. £300,000 was invested as part of the £2 million buyout of Selima Limited, a supplier of payroll and expenses software predominantly to public sector customers. £700,000 was committed to Displayplan Holdings Limited to help fund a management buyout of the company from its US parent. An additional new investment of £1.22 million is in the late stages of legal negotiation and expected to complete imminently.

17. Related Party Transactions

YFM Equity Partners Limited (formerly YFM Group Limited), the parent company of YFM Private Equity Limited, the Fund Manager to the Company, holds investments in Digital Healthcare Limited and Primal Pictures Limited, investee companies of British Smaller Companies VCT2 plc. At 31 December 2011 YFM Equity Partners Limited's investment in Digital Healthcare Limited was valued at £21,795 (2010: £21,791) and its investment in Primal Pictures Limited was valued at £28,131 (2010: £29,161).

As at 31 December 2011 Mr Last was a non-executive director of Patsystems plc. During the year Mr Last received £39,938 (2010: £45,000) from Patsystems plc in respect of his services. Mr Last holds a 0.4% equity stake in Patsystems plc. Following the trade sale of Patsystems plc to ION Group plc on 26 January 2012 Mr Last resigned from his role as a non-executive director.

Mr Pettigrew holds a 0.1% (2010: 0.1%) equity stake in Digital Healthcare Limited.

18. Events After the Balance Sheet Date

Your Board has published an Offer for Subscription giving investors the opportunity to subscribe for up to 14,539,007 new Ordinary shares in the Company at an offer price of 70.5 pence per Ordinary share. The Offer for Subscription will close on 5 April 2012. Pursuant to the Offer an initial allotment of £2,676,119 for 3,795,914 Ordinary shares was made on 5 January 2012 and £4,305,533 for 6,106,906 Ordinary shares was made on 20 March 2012.

High current activity levels can be seen by the fact that several additional investments have already completed since the 31 December 2011 year end. The Company invested £700,000 in January 2012 as part of the management buyout of the retail display group Displayplan Holdings Limited from its US parent. In February 2012 a further £58,000 was invested into portfolio business Sirigen Group Limited as part of a £1 million internal growth capital round. In March 2012 £300,000 was invested as part of the £2 million buyout of Selima Limited, a supplier of payroll and expenses software predominantly to public sector customers. Also in March 2012 a further £148,000 was invested into EKF Diagnostics Holdings plc, a growing international diagnostics group.

In January 2012 derivatives trading system provider, Patsystems plc, was sold to trade purchaser ION Group plc with the Company receiving £164,000 of cash proceeds from the sale of its shares. In March 2012 the Company's £140,000 remaining loan to Humber stevedore and logistics group RMS Group Holdings Limited was repaid as a result of a refinancing supported by the group's bank HSBC following further positive trading results. Also in March the Company sold 7.25% of its holding in quoted software group Tikit Group plc generating £17,000 of proceeds.

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 22. It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value. Therefore, the directors consider all assets to be carried at a valuation which equates to fair value.

Investments are made in a combination of equity, fixed rate and variable rate financial instruments so as to comply with VCT legislation and provide potential 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.

19. Financial Instruments (continued)

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

Assets as per balance sheet

	2011		2010	
	Loans and receivables £000	**Assets at fair value through profit or loss £000**	Loans and receivables £000	Assets at fair value through profit or loss £000
Non-current assets				
Financial assets at fair value through profit and loss	**–**	**11,827**	–	10,919
Trade and other receivables	**65**	**–**	259	–
Current assets				
Cash and cash equivalents	**4,076**	**–**	509	–
Trade and other receivables	**40**	**–**	32	–
	4,181	**11,827**	800	10,919
Other assets – not financial instruments	**202**	**–**	161	–
	4,383	**11,827**	961	10,919

Liabilities as per balance sheet

	2011 Other financial liabilities £000	2010 Other financial liabilities £000
Trade and other payables	**(228)**	(51)
	(228)	(51)

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

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

19a Market Risk

Market Price Risk

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

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

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

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 Net Asset Value. The Board seeks to invest in counter-cyclical stocks where these are identified.

18% of the Company's equity investments are quoted on AIM (2010: 18%). A 5% increase in stock prices as at 31 December 2011 would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £94,000 (2010: £62,000). 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.

82% of the Company's equity investments are in unquoted companies held at fair value (2010: 82%). The valuation methodology for these investments includes the application of externally produced FTSE multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed element. Investments have been valued in line with the valuation guidelines described on page 22. 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 £310,000 (2.0% of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by an equal amount.

Other valuations are valued at the price of recent investment, reviewed and discounted where the fair value of the investment no longer equates to the cost of the recent investment. A 10% decrease in the discount applied would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £127,000 (0.8% 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 £126,000 (0.8% of net assets).

The largest single concentration of risk relates to the Company's investment in Digital Healthcare Limited which constitutes 9% (2010: 10%) of the net assets attributable to the Company's Shareholders. The Board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis. The average investment, excluding those that have had their fair value reduced to nil, is 3.0% (2010: 3.3%) of the value of net assets.

Interest Rate Risk

The Company's venture capital investments include £1,923,000 (2010: £1,273,000) of loan stock in unquoted companies. The majority of this loan stock is at fixed rates to guard against fluctuations in interest rates. The Company is not exposed to any significant interest rate risk on its loan stock portfolio and is not significantly sensitive to interest rate risk.

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

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

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

	2011			2010		
	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months
Fixed rate loan stock	**1,923**	**12.41**	**30**	1,273	11.86	33
Government gilts	**1,618**	**2.44**	**41**	3,980	4.02	27
Combined	**3,541**	**7.33**	**35**	5,253	5.92	28

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

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 investments total £5,799,000 (2010: £4,780,000) which best represents the maximum credit risk exposure at the balance sheet date.

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

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

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 Limited, the Company's stockbroker. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited. The Board monitors the Company's risk by reviewing the broker's internal control reports on a regular basis.

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

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

	2011 £000			2010 £000		
	<1 year	**1-2 years**	**2-5 years**	<1 year	1-2 years	2-5 years
Unquoted loan investments	**798**	**–**	**1,142**	–	663	610

	2011 £000			2010 £000		
	1 month	**3-6 months**	**> 6 months**	1 month	3-6 months	> 6 months
Interest	**40**	**–**	**–**	32	–	–
Capital repayment	**–**	**–**	**–**	–	–	–

19c Liquidity Risk

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

The Company needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company places its surplus funds in a mixture of Government gilts and 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 primarily to fixed income Government securities, which are 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.

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. 25.5% (2010: 4%) of the Company's assets are in the forms of liquid cash and cash equivalents. There are no undrawn committed borrowing facilities at either year end. The Company does not have a material amount of liabilities at the year-end (2010: same).

19. Financial Instruments (continued)

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out on page 22. Where investments are in quoted stocks, fair value is set at market price, discounted if appropriate. Non-quoted investments are valued in line with the International Private Equity and Venture Capital ("IPEVC") valuation guidelines. The primary methods used, and the key assumptions relating to them, are:

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

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

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

20. Capital Management

The Company's objectives when managing capital are:

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

The Company has no external debt, consequently all capital is represented by the value of share capital, distributable and other reserves. Total Shareholder equity at 31 December 2011 was £15.7 million (2010: 11.8 million).

At a Shareholder meeting held on 30 August 2011 the Shareholders voted in favour of re-introducing a buy-back policy and the rate of discount to Net Asset Value at which the Company's shares are bought back has been set at no more than 15%. During the year the Company purchased 363,022 Ordinary shares at an average price of 57.42 pence per Ordinary share. These shares are held in treasury.

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

Advisers to the Company

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

Registrars
Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

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

Stockbrokers
Singer Capital Markets Limited
One Hanover Street
London
W1S 1AX

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

Money Market Fund Adviser
Prime Rate Capital Management LLP
One Vine Street
London
W1J 0AH

Independent Auditor
Grant Thornton UK LLP
2 Broadfield Court
Sheffield
S8 0XF

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

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

Company Secretary
KHM Secretarial Services Limited
Old Cathedral Vicarage
St James Row
Sheffield
S1 1XA

Notice of the Annual General Meeting

No: 4084003

BRITISH SMALLER COMPANIES VCT2 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 11 May 2012 at 12:00 noon for the following purposes:

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

ORDINARY RESOLUTIONS

(1) That the Annual Report and Accounts for the year ended 31 December 2011 be received.

(2) That the final dividend of 2.0p per Ordinary share for the year ended 31 December 2011 be approved.

(3) That the Directors' Remuneration Report for the year ended 31 December 2011 be approved.

(4) That Mr R M Pettigrew, who retires by virtue of service for more than nine years, be re-elected as a director.

(5) That Mr R Last, who retires by virtue of service for more than nine years, be re-elected as a director.

(6) That Grant Thornton UK LLP be re-appointed as auditor to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.

(7) That the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £332,336 representing approximately 10% of the share capital in issue as at 26 March 2012 (excluding treasury shares provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the later of the date which is 15 months from the date hereof or the date of the next annual general meeting of the Company, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry. All previous authorities to allot given to the directors, other than the authority granted pursuant to resolution 3 (authority to allot shares in respect of the Dividend Reinvestment Scheme) at the general meeting of the Company held on 11 January 2011 be and are hereby revoked provided that such revocation shall not have retrospective effect.

SPECIAL RESOLUTION

(8) That the directors be and are hereby empowered in accordance with section 570(1) of the Companies Act 2006 during the period commencing on the passing of this resolution and expiring, unless renewed, varied or revoked by the Company, on the later of the conclusion of the Company's next annual general meeting or the expiry of 15 months following the passing of this resolution, to allot equity securities (as defined in section 560 of the Companies Act 2006) for cash pursuant to the general authority conferred upon the directors in resolution 7 above, or by way of a sale of treasury shares, as if section 561 of the Companies Act 2006 did not apply to such allotment provided that this power is limited to the allotment of equity securities in the Company up to an aggregate nominal amount of 10% of the issued share capital of the Company as at 26 March 2012, but so that this authority shall allow the Company to make offers or agreements before the expiry of such powers and the directors may allot equity securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 560(2) of the Companies Act 2006 as if in this resolution the words "pursuant to the general authority conferred upon the directors in resolution 7 above" were omitted. All previous authorities granted to the directors to allot equity securities as if section 561 of the Companies Act 2006 did not apply, other than the authority granted pursuant to resolution 9 (authority to disapply section 561 of the Companies Act 2006 to the allotment of equity securities in connection with the Dividend Reinvestment Scheme) at the annual general meeting of the Company held on 16 May 2011, be and are hereby revoked provided that such revocation shall not have retrospective effect.

BY ORDER OF THE BOARD

KHM Secretarial Services Limited
Secretary
30 March 2012

Registered office:
Old Cathedral Vicarage, St James Row, Sheffield S1 1XA

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

Notes:

(a) Any member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and the notes to the form of proxy. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these notes. Please read note (h) below. Under section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:
- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

(b) To be valid, a form of proxy must be completed and signed and, with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the form of proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made. If no voting indication is given in the form of proxy, your proxy will vote (or abstain from voting) as they think fit in relation to any matter put to the Annual General Meeting.

(c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to note (d) directly below, the proxy appointment will remain valid.

(d) Completion and return of a form of proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

(e) Copies of the Directors' Letters of Appointment will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.

(f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 6 p.m. on 9 May 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6 p.m. on 9 May 2012 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

(g) As at 30 March 2012, the Company's issued share capital comprised 33,233,622 Ordinary shares of 10 pence each with a further 929,122 shares held in treasury. These treasury shares represented 2.88% of the total issued share capital (excluding treasury shares) at the aforementioned date. Each Ordinary share carries one voting right at a general meeting of the Company and so the total number of voting rights in the Company as at 30 March 2012 was 33,233,622. The website referred to above will include information on the number of Ordinary shares and voting rights.

(h) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

(j) In the case of joint members, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint members.

(k) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

(l) Members may not use any electronic address provided either in this notice of Annual General Meeting, or any related documents (including the Chairman's letter and form of proxy), to communicate with the Company for any purposes other than those expressly stated.

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

BRITISH SMALLER COMPANIES VCT2 PLC

FORM OF PROXY

To be used at the Annual General Meeting of the Company to be held at 33 St James Square, London, SW1Y 4JS on 11 May 2012 at 12:00 noon

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

____

as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 16 May 2012 at 12:00 noon and at any adjournment thereof.

Number of Ordinary shares proxy is appointed over ______________________________

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

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

	FOR	AGAINST	WITHHELD
ORDINARY RESOLUTIONS			
1. To receive the Annual Report and Accounts	☐	☐	☐
2. To approve a final dividend of 2.0 pence per Ordinary share	☐	☐	☐
3. To approve the Directors' Remuneration Report	☐	☐	☐
4. To re-elect as a director Mr R M Pettigrew	☐	☐	☐
5. To re-elect as a director Mr R Last	☐	☐	☐
6. To re-appoint Grant Thornton UK LLP as auditor	☐	☐	☐
7. To authorise the Directors to allot shares other than pursuant to the Dividend Reinvestment Scheme	☐	☐	☐
SPECIAL RESOLUTIONS			
8. To waive pre-emption rights in respect of the allotment of shares (other than pursuant to the Dividend Reinvestment Scheme).	☐	☐	☐

Signature ______________________________ **Dated** ______________ **2012**

NOTES

1. The Notice of the Annual General Meeting is set out on pages 58 to 60 of the Annual Report.
2. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and those in the Notice of the Annual General Meeting. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointor. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
3. If you wish to appoint a proxy of your own choice delete the words "the Chairman of the Annual General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
4. To be valid, a Form of Proxy must be completed and signed and with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made.
5. Any alterations to the Form of Proxy must be initialled by the person who has signed the Form of Proxy.
6. In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
7. In the case of a corporation, this Form of Proxy must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
8. In the case of joint shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
9. Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion on any other matter which is put before the Annual General Meeting.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

BRITISH SMALLER COMPANIES VCT2 PLC

FORM OF PROXY

To be used at the Annual General Meeting of the Company to be held at 33 St James Square, London, SW1Y 4JS on 11 May 2012 at 12:00 noon

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

British Smaller Companies VCT2 plc

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