

British Smaller Companies VCT plc  
Annual Financial Report Announcement  
for the Year to 31 March 2011

British Smaller Companies VCT plc (“the Company”) today announces its audited results for the year to 31 March 2011.

## Chairman’s Statement

I am pleased to present to Shareholders the Annual Report of the Company for the year ended 31 March 2011.

Your Company recorded an excellent performance with Net Asset Value increasing by 33.7% from 94.4 pence per share at 31 March 2010 to 126.2 pence per share, out of which dividends totaling 6.2 pence per share were paid, resulting in a Net Asset Value of 120.0 pence per share at 31 March 2011. Total return (Net Asset Value plus cumulative dividends) rose to 176.2 pence per share from 144.4 pence per share at 31 March 2010. The increase, before payment of dividends, on the opening Net Asset Value over the 12 month period to 31 March 2011 is an uplift of 31.8 pence per share, equivalent to 33.7%, which compares to growth in the FTSE SmallCap® Index of 36.5% and the FTSE AiM All-Share® Index of 28.2% over the same period. I am delighted to report that the Company is now the top performing Venture Capital Trust over a 1, 3, 5 and 10 year period to date as reported by Citywire.

Although economic uncertainty has continued throughout the year, many of the portfolio companies have benefited from gradually improving market conditions as well as improved efficiencies following tough measures to control costs in recent years. In spite of the significant market uncertainties of recent years, many management teams continue to plan and invest for the future and we expect to see an increase in new investment opportunities in the year ahead. It is with this in mind that the Board sought to increase the Company’s investment capacity via the recent linked offer with British Smaller Companies VCT2 plc, with a total of £4.41 million being raised by the Company.

The dividends paid in the year of 6.25 pence per share included a special dividend of 1.25 pence per share following the profitable realisation of the investment in Sheet Piling (UK). This compares to the underlying annual dividend of 5.0 pence per share paid in the year to March 2010 and your Board is recommending that this underlying dividend of 5.0 pence per share is maintained by way of a final dividend of 3.0 pence per share in respect of the year to March 2011. If approved, this dividend will be paid on 22 August 2011 to Shareholders on the register at 22 July 2011. The final dividend has not been

recognised in the accounts under IFRS as the contractual obligation did not exist at the balance sheet date.

Your Board will maintain the policy of seeking to improve on this underlying dividend as and when profitable cash realisations allow.

Under the incentive scheme to reward the Fund Manager a payment of £142,278 (equivalent to 0.41 pence per share) is to be made in respect of the year ended 31 March 2011. This payment will be made following the Annual General Meeting on 29 July 2011.

## Investment Portfolio

Over the year to March 2011 the total capital value growth from the opening portfolio was £10.56 million, or 61.2%, made up of £10.37 million of unrealised value growth and £0.19 million of profits on realisations. Of the unrealised value growth the biggest single contributor was GO Outdoors Limited which gained £8.68 million. A £28m investment in the company by the international private equity firm 3i plc was completed after the year end in April 2011. This post balance sheet event enabled a £6.54 million partial realisation of the Company's holding. Although a significant proportion of the total value increase derived from this single investment, it is also pleasing to see that the rest of the portfolio also demonstrated growth in value gaining £1.69 million overall, with good performances from many investments.

The year to March 2011 saw a general increase in investment activity with a total of £2.96 million invested and this is expected to increase further in the year ahead. This included four new investments totalling £2.0 million and three further investments totalling £0.96 million. A £1.0 million investment was made into President Engineering Group Limited to fund the buyout of a niche UK manufacturer of mining safety systems and industrial valves. £0.50 million was invested alongside British Smaller Companies VCT2 plc in Bluebell Telecom Group Limited, a provider of telecommunications service to UK businesses. The investment was made to help fund an acquisition and further acquisitions are expected as the sector consolidates. Two new quoted investments of £0.25 million each were made into EKF Diagnostics Holdings plc and Woodspeen Training plc. EKF Diagnostics Holdings plc is an AiM quoted company established to supply diagnostic devices and is led by an experienced management team well known to the Fund Manager. Woodspeen Training plc has raised a total of £2.6 million via the UK PLUS market to lead a consolidation in the vocational training sector.

A £0.75 million further investment was made into Adex Bridge Investments Limited, where we are working with an experienced manager to identify underperforming and turnaround situations in the Midlands region. £0.16 million was invested into Fishawack Limited as part of a £0.8 million capital raising to support the acquisition of another UK based medical communications business, to benefit from increased scale and improve the spread of customers. £0.05 million was invested alongside other institutional

investors into domiciliary care provider Elfin Home Care Limited as part of a £0.25 million working capital package.

Although there were no significant realisations in the 12 months to March 2011, there were several partial disposals which collectively generated proceeds of £0.83 million. The largest of these was a refinancing of the shareholder loans in RMS Group Holdings Limited with £2.5 million of new long term bank facilities which generated proceeds of £0.48 million for the Company, an uplift in value of £0.09 million. Improved trading conditions also enabled the redemption of £0.03 million of preference shares in Primal Pictures Limited using surplus cash. The Company's residual holding in its first ever investment, Freshroast Coffee Co. Limited was also sold back to the management team for the opening value of £0.03 million. In the AiM quoted portfolio there were three partial disposals of shares in EKF, Tikit Group plc and Straight plc which collectively generated cash proceeds of £0.27 million and a further uplift in value of £0.9 million.

The very strong unrealised gain from the portfolio of £10.37 million (2010: a gain of £3.83 million), derives principally from a gain of £10.37 million in the unquoted investments.

Within this, the biggest single increase was from GO Outdoors Limited (up £8.68 million) where significant progress has been made in opening a further nine new stores with historical stores contributing to further profit growth. Towards the end of the year the business received a number of approaches from trade and financial investors which culminated in the £28 million investment from 3i plc in April 2011 (after the end of the reporting period). This transaction enabled the Company to realise £6.54 million retaining a 14.09% shareholding. Your Fund Manager will work together with 3i plc to continue to support this highly successful retail concept which has plans over the next two to three years to further increase the number of its stores across the UK.

The other unquoted investments also achieved a strong improvement in valuation over the year of £1.69 million with several businesses benefiting from improved efficiencies and better market conditions. Humber port operator RMS Group Holdings Limited saw a £0.54 million increase in value (in addition to the £0.09 million realised profit from the debt refinancing) with a focused strategy delivering growth in sales and margins. The two recruitment businesses, Harris Hill Holdings Limited and Darwin Rhodes Group Limited, both saw an increase in value (£0.36 million and £0.23 million respectively) as their markets improved during the year. Kitchen retailer, Harvey Jones Holdings Limited, also delivered an improved profit in 2010 resulting in a value increase of £0.28 million.

Excluding the £0.09 million of realised gains in the year the unrealised quoted portfolio has overall remained flat. However, there were strong performances during the year at coal services group Hargreaves Services plc, business software service provider Tikit Group plc and retail supply chain software business K3 Business Technology Group plc.

The portfolio also generated income during the year of £0.72 million (2010: £0.47 million) from interest and dividend payments, resulting in a total portfolio return for the year before administrative fees of £11.28 million (2010: £4.79 million return).

## Financial Results

The result for the financial year ended 31 March 2011 was a pre-tax profit of £10.37 million which comprised profits in respect of capital and revenue of £9.67 million and £0.70 million respectively, as compared to pre-tax profit of £4.20 million in 2010 (which comprised a capital profit of £3.56 million and a revenue profit of £0.64 million).

The movement in Net Asset Value in the year has been:

	Pence per share
31 March 2010	94.4
Total increase in the year	31.8
	126.2
Dividends paid in year	(6.2)
31 March 2011	120.0

Cash and gilt investments at the end of the year amounted to £11.65 million, representing 28.3% of Net Asset Value (2010: £11.56m representing 39.9% of Net Asset Value). A further £8.4 million was received after the year end in respect of the partial sale of the holding in GO Outdoors Limited and the successful linked fundraising offer with British Smaller Companies VCT2 plc noted below.

## Shareholder Communications and Fundraising

The Company increased its investment capacity through a linked offer together with British Smaller Companies VCT2 plc. An initial allotment of £2.59 million for 2,025,838 new Ordinary shares (128 pence per share) was made on 22 March 2011 by the Company along with further allotments of 1,038,195 new Ordinary shares on 5 April 2011 and 383,134 new Ordinary shares on 4 May 2011 bringing the total new funds raised by the Company under the linked offer to £4.41 million. The additional investment capacity will enable the Company to take advantage of attractive investment opportunities that are expected to arise over the coming years.

Your Board continues to support the Shareholder workshops run by the Fund Manager where investors are invited to meet members of the Board, representatives from YFM Private Equity Limited, the

Company's Fund Manager, and the CEOs of one or more of our investee companies. We were delighted to welcome over 150 Shareholders to the most recent workshop held on 9 February 2011 at the British Museum. Your Board remains committed to these events which we believe are useful in increasing Shareholders' knowledge of the Company's activities.

Your Board plans to offer an online share portal service to Shareholders in the near future. This will allow Shareholders to access their shareholding details and certain communications online affording better access to the Registrar.

In addition, the Board remains committed to the objective of achieving a consistent dividend stream. This policy has been continued with your Board proposing that a final dividend of 3.0 pence per share will be paid on 22 August 2011 to Shareholders on the register as at 22 July 2011.

Your Board continues to actively promote a dividend reinvestment scheme. Your Board believes that the combination of achieving a consistent dividend, growth in net asset value and the tax relief on reinvested dividends remains an attractive investment proposition. During the year a total of 0.27 million shares were issued under the scheme. This represented 14.7% of the final and interim dividends paid.

During the year, the Company purchased a total of 778,448 Ordinary shares at an average price of 88.73 pence per share (2010: 331,882 shares at an average price of 73.6 pence per share). The existing buy-back authority which currently expires on 29 July 2011 is proposed to be extended until the date of the 2012 Annual General Meeting or fifteen months, whichever is the earlier. A resolution to this effect will be proposed at the Company's Annual General Meeting on 29 July 2011.

The Annual General Meeting of the Company will be held at 12:00 noon on 29 July 2011 at 33 St James Square, London, SW1Y 4JS.

## Regulation

Your Board is pleased to note the positive developments regarding Venture Capital Trusts in the recent budget of 23 March 2011 which are intended to be implemented from April 2012. It is pleasing that the positive contribution of Venture Capital Trust investment on the UK's smaller businesses is being recognised.

Your Company has been investing in such businesses across all sectors since 1996. By investing in smaller companies we have shown that it is possible to achieve good returns for investors, create sustainable economic growth and increase the flow of capital to these businesses from private investors. Your Board very much welcomes this Government's approach in seeking to support the activities of Venture Capital Trusts.

Your Board continues to monitor regulatory developments and is considering a European Union directive concerning the hedge fund and private equity fund managers which was approved by the European Parliament in November 2010 and adopted by the Council of the European Union in May 2011. Further secondary legislation is to be introduced over a two year transition period. Insofar as the directive affects the Company the Board will report further once the full impact of the directive becomes clear.

## Board of Directors

Robert Pettigrew and Richard Last resigned as Non-Executive Directors of the Company effective from 21 September 2010. As previously announced Edward Buchan has taken up his appointment as a Non-Executive Director effective from 22 September 2010. Edward is also a director of Downing Absolute Income VCT 1 plc. The changes to the Board's composition were in response to the new Listing Rules with regard to the independence of directors. I would like to reiterate my thanks to Robert and Richard for their very significant contribution over many years and extend my welcome to Edward, who is already making an excellent contribution.

## Outlook

It is encouraging to see many portfolio businesses reporting improving results. The portfolio remains well funded with many companies having taken the opportunity to improve efficiency or change their strategy in response to the uncertain economic conditions. This Company is well placed both to diversify its investment portfolio and to continue to support the existing portfolio companies as they seek to expand both organically and through selective acquisitions.

The Board remains of the opinion that the upcoming period is again likely to present many good investment opportunities, both for the existing portfolio businesses and for new investments. We expect management teams, owners and funders to be prepared to make decisions about expanding or selling their businesses and the Fund Manager is already reporting an increase in new investment enquiry levels. It was with this in mind that we increased the investment capacity of the Company to be in a strong position to take advantage of good opportunities as they arise.

I would like to take this opportunity to thank all Shareholders, both those who have supported the Company for a number of years and those who have recently invested, for their continued support, which we greatly value.

Helen Sinclair

Chairman 13 June 2011

## Fund Managers Review

Portfolio Valuation at 31 March 2011 and full history of realisations up to 31 March 2011

				Original Cost	Realised Proceeds to Date*	Investment Valuation at 31 March 2011	Realised and Unrealised to Date
Current Investments:	Date of Initial Investment	Location	Industry Sector	£000	£000	£000	£000
<b>GO Outdoors Limited</b>	May-98	Sheffield	Consumer Products	556	460	13,521	13,981
<b>Waterfall Services Limited</b>	Feb-07	Warrington	Support Services	1,000	-	1,821	1,821
<b>Adex Bridge Investments Limited</b>	Mar-10	Midlands	Turnaround	1,750	-	1,750	1,750
<b>Deep-Secure Ltd</b>	Dec-09	Reading	Software	1,000	-	1,092	1,092
<b>4G Capital Limited</b>	Mar-10	North-West	Software	1,000	-	1,000	1,000
<b>North Western Investments Limited</b>	Feb-10	North-West	Turnaround	1,000	-	1,000	1,000
<b>President Engineering Group Limited</b>	Sep-10	Sheffield	Manufacturing	1,000	-	1,000	1,000
<b>Hargreaves Services plc</b>	Dec-07	Durham	Manufacturing	469	-	869	869
<b>Fishawack Limited</b>	Jan-08	Knutsford	Communications	775	-	811	811
<b>Harvey Jones Holdings Limited</b>	May-07	London	Manufacturing	777	-	699	699
<b>Pressure Technologies plc</b>	Jun-07	Sheffield	Industrial	425	-	638	638
<b>Mattioli Woods plc</b>	Nov-05	Leicester	Support Services	326	-	604	604
<b>K3 Business Technology Group plc</b>	Apr-08	Colne	Software	402	-	579	579
<b>Lightmain Company Limited</b>	Mar-10	Rotherham	Manufacturing	600	-	569	569
<b>RMS Group Holdings Limited</b>	Jul-07	Goole	Industrial	1,050	537	543	1,080
<b>Bluebell Telecom Group Limited</b>	Sep-10	Newcastle	Telecommunications	500	-	500	500

<b>Harris Hill Holdings Limited</b>	Jun-07	Kingston-upon-Thames	Recruitment	600	-	465	465
<b>Tikit Group plc</b>	Jun-01	London	Software	226	95	404	499
<b>Primal Pictures Limited</b>	Mar-01	London	Healthcare	500	93	350	443
<b>Darwin Rhodes Group Limited</b>	Apr-08	London	Recruitment	444	-	333	333
<b>EKF Diagnostics Holdings plc</b>	Jul-10	London	Pharmaceuticals	250	105	290	395
<b>Woodspeen Training plc</b>	Dec-10	London	Training Provider	250	-	250	250
<b>Cambridge Cognition Limited</b>	May-02	Cambridge	Software	325	-	221	221
<b>Straight plc</b>	Feb-04	Leeds	Industrial	341	138	212	350
<b>Patsystems plc</b>	Oct-07	London	Software	222	-	172	172
<b>Brulines plc</b>	Oct-06	Stockton-on-Tees	Software	163	-	122	122
<b>Ellfin Home Care Limited</b>	Dec-07	Oldham	Healthcare	823	-	65	65
<b>Belgravium Technologies plc</b>	Oct-05	Bradford	Software	200	-	61	61
<b>Denison Mayes Group Limited</b>	Aug-98	Leeds	Industrial	700	295	5	300
				<b>17,674</b>	<b>1,723</b>	<b>29,946</b>	<b>31,669</b>
Full realisations since March 2002				11,270	16,405	-	16,405
Full realisations prior to March 2002				6,394	3,246	-	3,246
<b>Total</b>				<b>35,338</b>	<b>21,374</b>	<b>29,946</b>	<b>51,320</b>

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



Reconciliation of Investment Portfolio movement since 31 March 2010

<b>Name of Company</b>	<b>Investment Valuation at 31 March 2010 £000</b>	<b>Realisations £000</b>	<b>Additions £000</b>	<b>Valuation gains (losses) £000</b>	<b>Investment Valuation at 31 March 2011 £000</b>
<b>Current Investments:</b>					
GO Outdoors Limited	4,835	-	-	8,686	13,521
Waterfall Services Limited	1,617	-	-	204	1,821
Adex Bridge Investments Limited	1,000	-	750	-	1,750
Deep-Secure Ltd	1,000	-	-	92	1,092
4G Capital Limited	1,000	-	-	-	1,000
North Western Investments Limited	1,000	-	-	-	1,000
President Engineering Group Limited	-	-	1,000	-	1,000
Hargreaves Services plc	614	-	-	255	869
Fishawack Limited	709	-	157	(55)	811
Harvey Jones Holdings Limited	417	-	-	282	699
RMS Group Holdings Limited	383	(383)	-	543	543
Harris Hill Holdings Limited	100	-	-	365	465
Darwin Rhodes Group Limited	105	-	-	228	333
Other investments	4,476	(262)	1,054	(226)	5,042
<b>Total Movement</b>	<b>17,256</b>	<b>(645)</b>	<b>2,961</b>	<b>10,374</b>	<b>29,946</b>

# Fund Managers Review

## Introduction

This year has certainly seen improved market conditions for much of the portfolio although it is also fair to say that significant economic uncertainty remains. In spite of this the year has seen the strongest overall return on opening value since the Company was first established in 1996 with strong value growth not only from GO Outdoors Limited but also several other portfolio businesses.

GO Outdoors Limited continued its store roll out programme, now having twenty nine stores across the UK and continuing to capitalise on weak property markets to secure good lease terms on new facilities. Several cyclical portfolio businesses saw a strong improvement in profitability following tough actions to improve efficiencies, including port operator RMS Group Holdings Limited, kitchen manufacturer Harvey Jones Limited and recruitment businesses Harris Hill Limited and Darwin Rhodes Limited. Further profit growth was seen at specialist catering group Waterfall Services Limited and at security software provider Deep-Secure Ltd. Cambridge Cognition Limited, a manufacturer of diagnostic products for patients with brain disorders, is delivering a strong recovery after struggling for some years to find a successful route to market. Several of the quoted investment portfolio also benefited from the improved market conditions.

A further investment was made into Fishawack Limited to support the second acquisition of a UK competitor as part of the strategy to build a diversified international business. The investment into President Engineering Group Limited enabled the Company to back the existing team to purchase this manufacturer of branded engineering products to continue their international expansion plans. The investment into Bluebell Telecom Group Limited was to fund a proven team to make a further acquisition in the consolidating businesses telecoms sector. Two quoted investments were made into EKF Diagnostics Holdings plc and Woodspeen Training plc with a £53,000 profit already having been generated from a partial disposal of the investment in EKF Diagnostics Holdings plc.

There were no significant realisations during the period but the improved trading position of RMS Group Holdings Limited enabled a partial disposal via a refinancing of the institutional loans which generated £0.5 million of cash and £0.1 million realised profit.

Cash and gilt investments at 31 March 2011 were £11.65 million representing 28.3% of net assets. This compares to £11.56 million and 39.9% at 31 March 2010. A further £1.82 million was received by the Company after the year end in respect of the successful fundraising under the recent linked offer with British Smaller Companies VCT2 plc, making a total of £4.41 million gross proceeds from this fund raising, providing additional liquidity and the Company remains in a strong cash position to meet anticipated future investment opportunities.

## Portfolio Performance

Overall this year has seen strong progress made across the whole portfolio. The macroeconomic picture has been patchy with a mixture of stuttering improvement and sporadic country-specific debt crises. This continues to generate uncertainty over the future and UK GDP growth is widely forecast to be low for some years to come. However, for investors capable of taking medium term views over 5-10 years, these conditions should represent a backdrop for some good investment opportunities. Having taken tough steps to reduce costs and cut unprofitable activities over recent years many of the portfolio businesses saw improved revenues during the year which combined with improved efficiency levels, resulted in good profit improvements. The portfolio remains well funded and positioned for further value growth as economic conditions slowly improve and current strategies are implemented to capitalise on the changing market conditions.

Overall, the quoted and unquoted portfolio increased by £12.69 million to a total of £29.95 million in March 2011 (£17.26 million in March 2010). Netting off the new investment of £2.96 million and realised proceeds of £0.83 million, the net portfolio value increase over the year was £10.37 million. This breaks down into an increase of £10.371 million in the unquoted portfolio and an increase of £0.003 million in the quoted portfolio.

	Quoted and unquoted portfolio
	£000
Opening value	17,256
Additions	2,961
Valuation changes	
Unquoted	10,371
Quoted	3
Value sold	(645)
31 March 2011	29,946

By far the biggest valuation movement in the year was from the investment in GO Outdoors Limited, where growth of £8.68 million was experienced following nine new store openings, a continued improvement in profits and a change in valuation in response to approaches from trade and financial investors. An investment of £28m was made by 3i plc for a minority shareholding to fund a continuation of the store rollout programmes and facilitate a partial realisation of value for the shareholders. This

completed after the end of this reporting period with the Company realising £6.54 million of cash proceeds and retaining a residual 14.09% shareholding.

Other significant value movements within the unquoted portfolio were seen at port operator RMS Group Holdings Limited (up £0.54 million), recruitment specialists Harris Hill Limited (up £0.36 million) and Darwin Rhodes Limited (up £0.23 million), kitchen retailer Harvey Jones Holdings Limited (up £0.28 million), medical diagnostics provider Cambridge Cognition Limited (up £0.22 million) and catering group Waterfall Services Limited (up £0.20 million). These were partially offset by a fall in value of domiciliary care provider Ellfin Home Care Limited (down £0.20 million) following a change of strategy during the year. It is particularly encouraging to see several of the cyclical businesses seeing profit improvement and we would expect this to continue as market conditions improve further.

The quoted portfolio also benefited from improved market confidence. Key unrealised improvements were achieved at coal services and logistics group Hargreaves Services plc (up £0.26 million), supply chain software provider K3 Business Technology Group plc (up £0.20 million), business software service provider Tikit Group plc (up £0.17 million) and the new investment into medical diagnostics group EKF Diagnostics Holdings plc (up £0.09 million net of £0.05 million realised profit).

In accordance with IFRS 7 a sensitivity analysis has been undertaken on the assumptions used to value investments in unquoted companies. This indicated that a 10% decrease in the discounts applied in the valuations performed would have increased the net assets attributable to the Company's Shareholders and the total profit for the year by £1,281,000. A change in the opposite direction would have decreased net assets attributable to the Company's Shareholders and the total profit for the year by £1,370,000.

## Investment Activity

An increase in investment activity levels has been experienced, and it is hoped that this will continue in the year ahead as economic conditions stabilise further. During the year investments were made in seven companies:

	£000
<i>New Investments</i>	
Bluebell Telecom Group Limited	500
President Engineering Group Limited	1,000
EKF Diagnostics Holdings plc	250
Woodspeen Training plc	250

### *Follow-on Investments*

Fishawack Limited	157
Ellfin Home Care Limited	54
Adex Bridge Investments Limited	750

Total	2,961
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During the year new investments were made in four businesses. In July 2010 the Company invested £0.25 million into AiM-listed EKF Diagnostics Holdings plc, backing a proven management team to lead the commercialisation of a number of proven diagnostic technologies. In September 2010, £0.5 million was invested, alongside British Smaller Companies VCT2 plc, into Bluebell Telecom Group Limited to help fund the acquisition of Call Stream Limited. Bluebell Telecom Group Limited is a telecommunications service provider to UK businesses seeking to grow its aggregated service offering through a series of targeted acquisitions. In September 2010 the Company invested £1 million into President Engineering Group Limited, backing the existing management team in a £3.0 million buyout of this manufacturer of niche engineering products for the mining and oil and gas sectors. In December 2010 the Company invested £0.25 million into PLUS-listed vocational training provider Woodspeen Training plc, which has raised £2.6 million to lead a consolidation of this fragmented market.

The Company also made three further investments into the unquoted portfolio. In May 2010 £157,000 was invested in medical communications group Fishawack Limited to help fund the acquisition of a UK competitor to broaden the customer base and leverage operational synergies. In June 2010 a further £54,000 investment was made into Ellfin Home Care Limited as part of a £250,000 working capital round following management changes. In March 2011 a further investment of £750,000 was made into Adex Bridge Investments Limited, the investment company seeking turnaround opportunities focused in the Midlands region. We will continue to invest into the portfolio where we see good opportunities for value growth, either via the provision of working capital, funding portfolio businesses to make acquisitions or enabling a restructuring of existing shareholdings.

## Realisations

There have not been any significant realisation events during the year as generally market conditions have not provided sufficient favourable opportunities to maximise the potential value of investee businesses. Overall £831,000 of capital proceeds was realised, including a profit of £186,000 mainly via a number of opportunistic partial realisations during the year. The £6.54 million of realised cash proceeds from GO Outdoors Limited completed just after the end of this reporting period.

In August 2010, HSBC provided £2.50 million of new facilities in a refinancing of RMS Group Holdings Limited following improved trading results which resulted in £477,000 of capital proceeds to the Company including a profit of £94,000. In July 2010 £31,000 of capital proceeds were received from Primal Pictures Limited from a redemption of preference shares using free cash following recent profits. We also took the opportunity to realise part of the Company's investments in three of the quoted portfolio investments; EKF Diagnostics Holdings plc (£105,000 realised including £53,000 profit), Tikit Group plc (£95,000 realised including £37,000 profit) and Straight plc (£74,000 realised including £3,000 profit).

In December 2010, the Company sold its remaining investment in Freshroast Coffee Co. Limited back to the management team for its carrying value of £30,000 representing £24,000 uplift over original cost.

## Summary and Outlook

The year under review has seen a gradual improvement in market conditions experienced by the portfolio companies although significant economic uncertainty still remains. Following tough actions in recent years, many of the portfolio companies have been well positioned to deliver improved results and we would hope to see further improvements in profits and value as economic conditions improve further.

We are optimistic that the year ahead will see a continuation of the improving market conditions which may at least lead to a degree of economic stability and provide more certainty. The Company is well placed to take advantage of the current market conditions.

With a gradually increasing investment rate and limited disposals, the Company's cash reserves have been boosted further by £2.59 million of gross proceeds as at the year end from the recent linked fund raising with British Smaller Companies VCT2 plc, with a further £1.82 million of gross proceeds received post year end. After taking account of the proposed dividend of 3.0p per share this leaves the Company with strong cash reserves and well placed to support the portfolio, take advantage of good investment opportunities and continue to pay an attractive dividend stream.

David Hall

YFM Private Equity Limited

13 June 2011

## Principal risks, risk management and regulatory environment

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

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

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

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

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

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

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

**Market Risk** – lack of liquidity in both the venture capital and public markets. Investment in AiM-traded, PLUS and unquoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

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

The Board seeks to mitigate the internal risks by setting policy, regular review of performance and monitoring progress and compliance. The Key Performance Indicators measure the Company’s performance and its compliance with legislative tests. In the mitigation and management of these risks, the Board rigorously applies the principles detailed in *Financial Reporting Council - Revised Internal Control: Guidance for Directors on the Combined Code*.

## Responsibility statements of the Directors in respect of the Annual Financial Report

The Annual Report and Accounts contains the following statements regarding responsibility for the management report and financial statements included in the Annual Report and Accounts from which the information in this Announcement has been extracted (references in the following statements are to sections of the Annual Report and Accounts).

The directors confirm, to the best of their knowledge:

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



# Statement of Comprehensive Income

For the year ended 31 March 2011

	Notes	2011			2010		
		Revenue	Capital	Total	Revenue	Capital	Total
		£000	£000	£000	£000	£000	£000
Gain on disposal of investments		-	19	19	-	357	357
Gains on investments held at fair value		-	10,254	10,254	-	3,606	3,606
Income	2	1,174	-	1,174	1,129	-	1,129
Administrative expenses:							
Fund management fee		(153)	(460)	(613)	(136)	(407)	(543)
Incentive fee		-	(142)	(142)	-	-	-
Other expenses		(319)	-	(319)	(347)	-	(347)
		(472)	(602)	(1,074)	(483)	(407)	(890)
<hr/>							
<b>Profit before taxation</b>		<b>702</b>	<b>9,671</b>	<b>10,373</b>	646	3,556	4,202
Taxation	3	(86)	86	-	(100)	100	-
<hr/>							
<b>Profit for the year</b>		<b>616</b>	<b>9,757</b>	<b>10,373</b>	546	3,656	4,202
<hr/>							
<b>Total comprehensive income for the year</b>		<b>616</b>	<b>9,757</b>	<b>10,373</b>	546	3,656	4,202
<hr/>							
<b>Basic and diluted earnings per Ordinary share</b>	5	<b>1.86p</b>	<b>29.52p</b>	<b>31.38p</b>	1.77p	11.88p	13.65p

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

# Balance Sheet

At 31 March 2011

	Notes	2011 £000	2010 £000	
<b>Assets</b>				
<b>Non-current assets</b>				
Investments		29,946	17,256	
Fixed income government securities		8,537	9,740	
Financial assets at fair value through profit or loss		38,483	26,996	
<b>Current assets</b>				
Trade and other receivables		359	319	
Fundraising amounts not yet received		-	1,736	
Cash and cash equivalents		3,114	1,820	
		3,473	3,875	
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		(784)	(237)	
Fundraising accrual (net)		-	(1,626)	
<b>Net current assets</b>		2,689	2,012	
<b>Net assets</b>		41,172	29,008	
<b>Shareholders' equity</b>				
Share capital		3,646	3,212	
Share premium account		19,492	15,398	
Capital redemption reserve		221	221	
Treasury share reserve		(1,866)	(1,175)	
Capital reserve		(372)	93	
Investment holding gains reserve		11,780	1,558	
Special reserve		2,408	2,408	
Revenue reserve		5,863	7,293	
<b>Total Shareholders' equity</b>		41,172	29,008	
<b>Basic and diluted Net Asset Value per Ordinary share</b>		6	120.0p	94.4p

# Statement of Changes In Equity

For the year ended 31 March 2011

	Share capital	Share premium account	Capital redemption reserve	Treasury share reserve	Capital reserve	Investment holding gains reserve	Special reserve	Revenue reserve	Total Shareholders' equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2009</b>	<b>3,187</b>	<b>15,236</b>	<b>221</b>	<b>(931)</b>	<b>-</b>	<b>(1,389)</b>	<b>2,408</b>	<b>7,668</b>	<b>26,400</b>
<i>Revenue return for the year</i>	-	-	-	-	-	-	-	546	546
<i>Capital expenses</i>	-	-	-	-	(307)	-	-	-	(307)
<i>Gain on investments held at fair value</i>	-	-	-	-	-	3,606	-	-	3,606
<i>Gain on disposal of investments in the year</i>	-	-	-	-	357	-	-	-	357
Total comprehensive income for the year	-	-	-	-	50	3,606	-	546	4,202
<i>Issue of share capital</i>	25	162	-	-	-	-	-	-	187
<i>Purchase of own shares</i>	-	-	-	(244)	-	-	-	-	(244)
<i>Dividends</i>	-	-	-	-	(616)	-	-	(921)	(1,537)
Total transactions with owners	25	162	-	(244)	(616)	-	-	(921)	(1,594)
Realisation of prior year investment holding gains	-	-	-	-	659	(659)	-	-	-
<b>Balance at 31 March 2010</b>	<b>3,212</b>	<b>15,398</b>	<b>221</b>	<b>(1,175)</b>	<b>93</b>	<b>1,558</b>	<b>2,408</b>	<b>7,293</b>	<b>29,008</b>
<i>Revenue return for the year</i>	-	-	-	-	-	-	-	616	616
<i>Capital expenses</i>	-	-	-	-	(516)	-	-	-	(516)
<i>Gain on investments held at fair value</i>	-	-	-	-	-	10,254	-	-	10,254
<i>Gain on disposal of investments in the year</i>	-	-	-	-	19	-	-	-	19
Total comprehensive income for the year	-	-	-	-	(497)	10,254	-	616	10,373
<i>Issue of share capital</i>	434	4,243	-	-	-	-	-	-	4,677
<i>Issue costs</i>	-	(149)	-	-	-	-	-	-	(149)
<i>Purchase of own shares</i>	-	-	-	(691)	-	-	-	-	(691)
<i>Dividends</i>	-	-	-	-	-	-	-	(2,046)	(2,046)
Total transactions with owners	434	4,094	-	(691)	-	-	-	(2,046)	1,791
Realisation of prior year investment holding gains	-	-	-	-	32	(32)	-	-	-
<b>Balance at 31 March 2011</b>	<b>3,646</b>	<b>19,492</b>	<b>221</b>	<b>(1,866)</b>	<b>(372)</b>	<b>11,780</b>	<b>2,408</b>	<b>5,863</b>	<b>41,172</b>

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

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

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

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

The special reserve, capital reserve, revenue reserve and treasury share reserve are all distributable reserves. These reserves total £6,033,000 (2010: £8,619,000) representing a decrease of £2,586,000 (2010: £526,000 decrease) during the year. This change arises from the profit in the year of £119,000 (2010: £596,000), a movement in the investment holding reserve of £32,000 (2010: £659,000), dividends of £2,046,000 (2010: £1,537,000) and the purchase of own shares of £691,000 (2010: £244,000). The directors also take into account the level of the capital reserve when determining the level of dividend payments.

## Statement of Cash Flows

For the year ended 31 March 2011

	2011	2010
	£000	£000
<b>Net cash inflow from operating activities</b>	<b>717</b>	654
<hr/>		
<b>Cash flows used in investing activities</b>		
Purchase of financial assets at fair value through profit or loss	<b>(6,802)</b>	(6,389)
Proceeds from sale of financial assets at fair value through profit or loss	<b>5,588</b>	5,517
<b>Net cash used in investing activities</b>	<b>(1,214)</b>	(872)
<hr/>		
<b>Cash flows from (used in) financing activities</b>		
Issue of Ordinary shares	<b>4,677</b>	-
Cost of Ordinary share issue	<b>(149)</b>	(76)
Purchase of own Ordinary shares	<b>(691)</b>	(244)
Dividends paid	<b>(2,046)</b>	(1,339)
<b>Net cash from (used in) financing activities</b>	<b>1,791</b>	(1,659)
<hr/>		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,294</b>	(1,877)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,820</b>	3,697
<hr/>		
<b>Cash and cash equivalents at the end of the year</b>	<b>3,114</b>	1,820

## Reconciliation of Profit before Taxation to Net Cash Inflow from Operating Activities

	2011	2010
	£000	£000
Profit before taxation	<b>10,373</b>	4,202
Decrease (increase) in prepayments and accrued income	<b>1,696</b>	(1,382)
(Decrease) increase in accruals and other creditors	<b>(1,079)</b>	1,797
Profit on realisation of investments in the year	<b>(19)</b>	(357)
Revaluation of investments in the year	<b>(10,254)</b>	(3,606)
<hr/>		
<b>Net cash inflow from operating activities</b>	<b>717</b>	654

## Notes

### 1. Basis of Accounting

This announcement of the annual results of the Company for the year ended 31 March 2011 has been prepared using accounting policies consistent with those adopted in the full audited financial statements which 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 and quoted Government Securities at fair value through profit or loss.

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

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

### 2. Income

	<b>2011</b>	2010
Income from investments:	<b>£000</b>	£000
Dividends from unquoted companies	<b>214</b>	78
Dividends from quoted companies	<b>75</b>	94
	<b>289</b>	172
Interest on loans to unquoted companies	<b>435</b>	295
Fixed interest Government securities	<b>436</b>	609
Income from investments held at fair value through profit or loss	<b>1,160</b>	1,076
Interest on VAT recovered in 2009	-	16
Interest on deposits	<b>14</b>	37
	<b>1,174</b>	1,129

### 3. Taxation

	2011			2010		
	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000
Profit before taxation	<b>702</b>	<b>9,671</b>	<b>10,373</b>	646	3,556	4,202
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 21% (2010: 21%)	<b>147</b>	<b>2,031</b>	<b>2,178</b>	136	746	882
<b>Effect of:</b>						
UK dividends received	<b>(61)</b>	-	<b>(61)</b>	(36)	-	(36)
Non taxable profits on investments	-	<b>(2,157)</b>	<b>(2,157)</b>	-	(832)	(832)
Excess management expenses	-	<b>40</b>	<b>40</b>	-	(14)	(14)
Tax charge (credit)	<b>86</b>	<b>(86)</b>	-	100	(100)	-

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

Deductible temporary differences for which no deferred tax asset has been recognised amount to £295,000 calculated at 20% (2010: £270,000 calculated at 21%) in respect of unrelieved management expenses. These have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which the assets can be recovered.

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

## 4. Dividends

Amounts recognised as distributions to equity holders in the period:

	2011			2010		
	Revenue	Capital	Total	Revenue	Capital	Total
	£000	£000	£000	£000	£000	£000
Final dividend for the year ended 31 March 2010 – 3.0p per Ordinary share; paid 28 September 2010 (2009: 3.0p per Ordinary share) and	983	-	983	921	-	921
Special dividend 1.25p per Ordinary share paid on 28 September 2010 (2010: nil)	410	-	410	-	-	-
Interim dividend 2.0p per Ordinary share paid on 7 January 2011 (2010: 2.0p per Ordinary share)	653	-	653	-	616	616
	<b>2,046</b>	<b>-</b>	<b>2,046</b>	921	616	1,537

The interim dividend of 2.0 pence per share was paid on 7 January 2011 to Shareholders on the register at 10 December 2010.

The special dividend of 1.25 pence per share was paid on 28 September 2010 to Shareholders on the register at 3 September 2010.

A final dividend of 3.0 pence per share in respect of the year to 31 March 2011, amounting to £1,072,000, has been proposed. This has not been recognised in the year ended 31 March 2011 as the obligation did not exist at the balance sheet date.

## 5. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per Ordinary share is based on the profit after tax attributable to equity Shareholders of £10,373,000 (2010: £4,202,000) and 33,051,075 (2010: 30,774,418) shares, being the weighted average number of shares in issue during the year.

The basic and diluted revenue return per Ordinary share is based on the revenue profit for the year attributable to equity Shareholders after tax of £616,000 (2010: £546,000) and 33,051,075 (2010: 30,774,418) shares being the weighted average number of shares in issue during the year.

The basic and diluted capital return per Ordinary share is based on the capital profit for the year after tax attributable to equity Shareholders of £9,757,000 (2010: £3,656,000) and 33,051,075 (2010: 30,774,418) shares being the weighted average number of shares in issue during the year.



During the year the Company issued 4,346,734 Ordinary shares. The Company also repurchased 778,448 of its own shares, which are held in treasury.

The 2,161,285 treasury shares have been excluded in calculating the weighted average number of Ordinary shares during the year (2010: 1,382,837). The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted earnings per share are the same.

After the year end the Company issued 1,421,329 Ordinary shares. If these shares had been issued on 31 March 2011 the weighted average number of shares in issue during the year would have been 33,086,122 and there would have been no change in the basic and diluted earnings per Ordinary share figures shown at the foot of the Statement of Comprehensive Income.

## 6. Net Asset Value per Ordinary Share

The basic and diluted Net Asset Value per Ordinary share is calculated on attributable assets of £41,172,000 (2010: £29,008,000) and 34,300,480 (2010: 30,732,194) Ordinary shares in issue at the year end, excluding treasury shares.

The treasury shares have been excluded in calculating the number of Ordinary shares in issue at 31 March 2011. The Company has no securities that would have a dilutive effect in either period and hence the basic and diluted Net Asset Values per Ordinary share are the same.

## 7. Total Return per Ordinary Share

The Total Return per Ordinary share is calculated on cumulative dividends paid of 56.2 pence per Ordinary share (2010: 50.0 pence per Ordinary share) plus the Net Asset Value as calculated per note 6.

## 8. Related Party Transactions

The Company has not entered into any related party transactions that have had a material impact on its financial position or performance in the year to 31 March 2011. Full details of related party transactions are shown in note 17 of the Annual Report and Accounts which can be obtained as described in note 11.

## 9. Events after the Balance Sheet Date

In April 2011, the Company's investment in GO Outdoors Limited was partially realised for proceeds of £6.54 million.

On 5 April 2011 and on 4 May 2011 the Company allotted 1,038,195 and 383,134 ordinary shares of 10.0 pence each at a price of 128 pence per Ordinary Share pursuant to the linked offer for subscription made by the Company and British Smaller Companies VCT2 plc ("BSC2") raising gross proceeds of £1.82 million.

On 13 May 2011 the Company realised 9,350 shares in Hargreaves Services plc generating proceeds of £0.09 million.

## 10. Financial Information

The financial information set out here for the year ended 31 March 2011 does not constitute full statutory financial statements as defined in section 435 of the Companies Act 2006 but has been extracted from the Company's financial statements for that period. Statutory accounts for the year ended 31 March 2011 will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 29 July 2011. Those accounts were reported upon without qualification by the independent auditors and their report was reported on without qualification and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

## 11. Annual Report and Accounts

Copies of the Annual Report and Accounts for the year ended 31 March 2011 have been submitted to the National Storage Mechanism and will shortly be available to the public for viewing online at [www.hemscott.com/msn/do](http://www.hemscott.com/msn/do). They can also be viewed on the Fund Manager's website at [www.yfmep.com](http://www.yfmep.com). Hard copies of the Annual Report and Accounts for the year ended 31 March 2011 will be distributed by post to Shareholders and will be available thereafter to members of the public from the Company's registered office.

## 12. Directors

The directors of the Company are: Ms H Sinclair, Mr PS Cammerman and Mr C W E R Buchan.

## 13. Annual General Meeting

The Annual General Meeting of the Company will be held at 33 St James Square, London, SW1Y 4JS, on 29 July 2011 at 12.00 noon.

For further information, please contact:

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