

BRITISH SMALLER COMPANIES VCT2 PLC Annual Financial Report

Announcement for

the Year to 31 December 2011

British Smaller Companies VCT2 plc (“the Company”) today announces its audited results for the year to 31 December 2011.

Whilst the general economic backdrop has remained challenging the total return to Shareholders has increased by 4.3% (4.1 pence per Ordinary share) in the year. The financial highlights are:

- An increase in Net Asset Value to 68.5 pence per Ordinary share
- Dividends for the year total 4.0 pence per Ordinary share. This brings cumulative dividends paid to Shareholders at 31 December 2011 to 30 pence per Ordinary share.
- The portfolio value has increased by 17.2% of its opening value
- The Company recorded a pre-tax profit of £1.04 million

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 11am 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 on-going 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.

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/share
31 December 2010	68.4
Dividends paid in the year	(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 11:00am. 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 Shareholder's 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.

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 Chancellors 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 increasing 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 fund raising offers in the future.

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*	Proceeds to Date*	Investment Valuation at 31 December 2011 £000	Return to Date £000
Current Investments				£000	£000		
Digital Healthcare Limited	Jun-05	Cambridge	Medical Instruments	3,072	-	1,396	1,396
Primal Pictures Limited	Dec-05	London	Medical Instruments	897	205	1,081	1,286
Deep-Secure Limited	Dec-09	Malvern	Software	500	-	1,103	1,103
Sirigen Group Limited	Jun-10	Hampshire	Medical Technology	458	-	858	858
Waterfall Services Limited	Feb-07	Warrington	Healthcare	192	292	390	682
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
RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	210	165	246	411
Bagel Nash Limited	July-11	Leeds	Retail Baker	405	-	405	405
Harvey Jones Holdings Limited	May-07	London	Consumer Retail	389	-	391	391
TeraView Limited	Dec-11	Cambridge	Medical Instruments	375	-	375	375
Optos plc	Dec-05	Dunfermline	Medical Instruments	81	167	175	342
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
May Gurney Integrated Services plc	May-11	Norwich	Construction	212	-	217	217
Tikit Group plc	May-11	London	Software	198	-	195	195
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	Nottingham	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.

Fund Manager's Review

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*	Proceeds to Date	Capital Return Multiple	Disposals to Date	Gains (losses) on Disposal
				£000	£000		£000	£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)
Comvurgent 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

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:-

	2011	
	£000	%
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.

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
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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 £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.

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

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.

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

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

The Board seeks to mitigate 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.

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 Directors’ 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 the principal risks and uncertainties that it faces.

Statement of Comprehensive Income
For the year ended 31 December 2011

	Notes	2011			2010		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Gain on disposal of investments		-	225	225	-	370	370
Profits (losses) on investments held at fair value		-	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)
		(387)	(259)	(646)	(311)	(231)	(542)
Profit (loss) before taxation		(38)	1,078	1,040	10	(113)	(103)
Taxation	3	-	-	-	-	-	-
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	5	(0.17)p	4.92p	4.75p	0.06p	(0.65)p	(0.59)p

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRS's) 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	2010
		£000	£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		11,827	10,919
Trade and other receivables		65	259
		11,892	11,178
Current assets			
Trade and other receivables		242	193
Cash and cash equivalents		4,076	509
		4,318	702
Liabilities			
Current liabilities			
Trade and other payables		(228)	(51)
Net current assets		4,090	651
Net assets		15,982	11,829
Shareholders' equity			
Share capital		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	6	68.5p	68.4p

Statement of Changes In Equity

For the year to 31 December 2011

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

*Other reserves include the capital redemption reserve and other reserve, which are non-distributable. The other reserve was created on the exercise of warrants and the capital redemption reserve was created 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 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 ended 31 December 2011

	2011	2010
	£000	£000
Net cash outflow from operating activities	(174)	(312)
<hr/>		
Cash flows from (used in) from investing activities		
Purchase of financial assets at fair value through profit or loss	(3,970)	(3,135)
Proceeds from sale of financial assets at fair value through profit or loss	4,276	1,525
Deferred consideration	322	301
Net cash from (used in) investing activities	628	(1,309)
<hr/>		
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)
<hr/>		
Net increase (decrease) in cash and cash equivalents	3,567	(1,795)
Cash and cash equivalents at beginning of the year	509	2,304
Cash and cash equivalents at the end of the year	4,076	509

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

	2011	2010
	£000	£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)

Notes

1. Basis of Accounting

This announcement of the annual results of the Company for the year ended 31 December 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 IFRS.

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.

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

	2011	2010
	£000	£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
	282	307
Income from investments held at fair value through profit or loss	282	307
Interest on bank deposits	67	14
	349	321

3. 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.

4. 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.

5. 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. 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.

6. 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. 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.

7. 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 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 December 2011. Full details of related party transactions are shown in note 17 to the Annual Report and Accounts which can be obtained as described in note 11.

9. 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 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.

10. Financial Information

The financial information set out here for the year ended 31 December 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 December 2011 will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 11 May 2012. Those accounts were reported upon without qualification by the independent auditor 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 December 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. They can also shortly be viewed on the Fund Manager's website at www.yfmep.com. Hard copies of the Annual Report and Accounts for the Year ended 31 December 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: Mr R Last, Mr RM Pettigrew and Mr PC Waller.

13. Annual General Meeting

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 further information, please contact:

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