BRITISH SMALLER COMPANIES VCT2 PLC Annual Financial Report Announcement for the Year to 31 December 2010

British Smaller Companies VCT2 plc ("the Company") today announces its audited results for the year to 31 December 2010.

Chairman's Statement

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

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

Investment Portfolio

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

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

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

Although there have been no large divestments from the portfolio during the year, the Company has received proceeds of £695,000. This includes £298,000 of deferred proceeds in respect of DxS, taking total amounts received to £2.1 million, representing a 12.9x return on capital invested. A further £259,000 of deferred consideration is anticipated from DxS, which has been included within receivables at the year end. £189,000 has been received from RMS as a result of a successful recapitalisation of this port operator in August 2010. In addition, Primal Pictures redeemed preference shares of £205,000 out of surplus cash flow. Proceeds received during the year, together with the DxS deferred consideration generated a profit of £390,000 above previous carrying values. After a loss of £20,000 on realisation of the gilt portfolio the total profits for the year were £370,000.

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

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

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

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

Financial Results

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

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

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

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

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

Shareholder Relations and Fundraising

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

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

Your Board remains committed to enhancing Shareholder communications and continues to run Shareholder workshops where investors are invited to meet members of the Board, representatives from YFM Private Equity Limited, the Company's Fund Manager, and the CEO's of one or more of our investee companies. We were delighted to welcome over 150 shareholders to the most recent workshop held on 9 February 2011 at the British Museum.

The Annual General Meeting of the Company will be held at 12.00 noon on 16 May 2011 at:
33 St. James Square, London, SW1Y 4JS.

Regulation

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

Board of Directors

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

Mr Waller's appointment follows the resignation of Mr Philip Cammerman in September 2010. I should again like to thank Mr Cammerman, both personally and on behalf of the Company and its Shareholders, for the significant contribution he has made since the Company's inception.
This year's changes to the Board's composition have been in response to the new Listing Rules with regard to the independence of directors.

Outlook

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

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

Richard Last
Chairman
31 March 2011

Fund Manager's Review

Name of Company	Date of Initial Investment	Location	Industry Sector	Current Cost*	Realised Proceeds to Date	Investment Valuation at 31 December 2010	Realised and Unrealised to Date
				£000	£000	£000	£000
Current Investments							
Digital Healthcare Limited	Jun-05	Cambridge	Medical Instruments	3,072	-	1,142	1,142
Primal Pictures Limited	Dec-05	London	Medical Instruments	897	205	1,056	1,261
Immunobiology Limited	Jun-03	Cambridge	Pharmaceuticals	1,032	-	1,002	1,002
Bluebell Telecom Group Limited	Sep-10	Newcastle	Telecommunications	500	-	500	500
Waterfall Services Limited	Feb-07	Warrington	Healthcare	250	-	474	474
Harvey Jones Limited	May-07	London	Consumer Retail	389	-	395	395
Deep-Secure Ltd	Dec-09	Reading	Software	500	-	393	393
Pressure Technologies plc	Jun-07	Sheffield	Manufacturing	300	-	370	370
Patsystems plc	Sep-07	London	Software	317	-	293	293
Brady plc	Dec-10	Cambridge	Metals and Commodities	239	-	271	271
Sirigen Limited	Oct-10	Hampshire	Medical Technology	267	-	267	267
RMS Group Holdings Limited	Jul-07	Goole	Industrial Services	210	165	221	386
Optos plc	Dec-05	Dunfermline	Medical Instruments	115	93	195	288
Tissuemed Limited	Dec-05	Leeds	Consumer Retail	48	-	120	120
Cambridge Cognition Limited	May-02	Cambridge	Software	240	-	82	82
Brulines plc	Oct-06	Stockton-on-Tees	Electronics	81	-	69	69
Ellfin Home Care Limited	Dec-07	Oldham	Healthcare	317	-	52	52
Allergy Therapeutics plc	Oct-04	Worthing	Biotechnology	350	-	37	37
Silistix Limited	Dec-03	Manchester	Electronics	1,364	-	-	-
Solcom Limited	Dec-05	Ryde	Software	-	-	-	-
Oxis Energy Limited	Dec-05	Abingdon	Electronics	5	-	-	-
Intelligent Recordings Limited	Sep-08	Nottingham	Electronics	-	-	-	-
				10,493	**463**	**6,939**	**7,402**
Full realisations to date				7,872	13,993	-	13,993
Total				**18,365**	**14,456**	**6,939**	**21,395**

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

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

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Fund Manager’s Review

Introduction

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

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

Portfolio Overview

Portfolio Performance

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

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

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

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

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

Whilst this year has undoubtedly produced a number of challenges, the unquoted portfolio as a whole has generally proved resilient with 9 out of 10 investments showing an uplift in value. Nonetheless, it is disappointing that strong positive progress across many businesses was offset by significant value falls in two investments, Digital Healthcare and Silistix. Excluding the effect of these two investments the remaining unquoted portfolio value grew by £700,000 over the period. The Digital Healthcare valuation was reduced (down £517,000) in recognition of underperformance of it's US strategy but significant steps have been made in the UK. Silistix (down £460,000) unfortunately failed to attract a trade buyer for its software used in the design of next generation electronic processors and the value has now been written down to zero although there remains a possibility that some value can still be recovered.

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

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

Investment Activity

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

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

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

Realisations

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

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

Conclusion and Outlook

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

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

David Hall
YFM Private Equity Limited
31 March 2011

Principal risks, risk management and regulatory environment.

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

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

Loss of approval as a Venture Capital Trust - the Company must comply with Section 274 of the Income Tax Act 2007 which allows it to be exempted from capital gains tax on investment gains. Any breach of these rules may lead to the Company losing its approval as a VCT, qualifying Shareholders who have not held their shares for the designated holding period having to repay 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, International Financial Reporting Standards and the Statement of Recommended Practice. Breach of any of these regulatory rules might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

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

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

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

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

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

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

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 the principal risks and uncertainties that they face.

Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	**2010** Revenue £000	**2010** Capital £000	**2010** Total £000	2009 Revenue £000	2009 Capital £000	2009 Total £000
Gain on realisation of investments		**-**	**370**	**370**	-	1,793	1,793
Losses on investments held at fair value		**-**	**(252)**	**(252)**	-	(1,326)	(1,326)
Income	2	**321**	**-**	**321**	372	-	372
Administrative expenses:							
Fund Management fee		**(77)**	**(231)**	**(308)**	(79)	(238)	(317)
Other expenses		**(234)**	**-**	**(234)**	(212)	-	(212)
		(311)	**(231)**	**(542)**	(291)	(238)	(529)
Profit (loss) before taxation		**10**	**(113)**	**(103)**	81	229	310
Taxation	3	**-**	**-**	**-**	(11)	11	-
Profit (loss) for the year		**10**	**(113)**	**(103)**	70	240	310
Total comprehensive profit (loss) for the year		**10**	**(113)**	**(103)**	70	240	310
Basic and diluted earnings (loss) per Ordinary share	5	**0.06p**	**(0.65)p**	**(0.59)p**	0.42p	1.44p	1.86p

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

Balance Sheet

At 31 December 2010

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

Statement of Changes In Equity

For the year ended 31 December 2010

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

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

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

The special reserve was created following the approval of the Court and the resolution of the Shareholders to cancel the Company's share premium account and is available for other corporate purposes of the Company. The capital reserve includes gains and losses compared to cost on the realisation of investments, capital expenses, together with the related taxation effect and capital dividends paid to Shareholders. This is a distributable reserve. 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 £8,382,000 (2009: £9,560,000) representing a decrease of £1,178,000 (2009: £945,000 increase) during the year. This change arises from the loss in the year of £103,000 (2009: £310,000 profit), movements in the investment holding gain (loss) reserve of £39,000 (2009: £1,633,000), dividends of £713,000 (2009: £998,000) and purchase of shares of £323,000 (2009: nil). The directors also take into account the level of the investment holding gain (loss) reserve when determining the level of dividend payments.

Statement of Cash Flows

For the year ended 31 December 2010

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

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

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

Notes

1. Basis of Accounting

This announcement of the annual results of the Company for the year ended 31 December 2010 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 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 IFRS, 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

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

3. Taxation

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

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

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

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

4. Dividends

Amounts recognised as distributions to equity holders in the period:

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

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

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

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

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

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

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

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

6. Net Asset Value per Ordinary Share

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

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

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

7. Total Return per Ordinary Share

The total return per Ordinary share is calculated on cumulative dividends paid of 26.0 pence per Ordinary share (2009: 22.0 pence per Ordinary share) plus the net asset value as calculated per note 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 2010. 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 proposals offering investors the opportunity to subscribe for up to 12,811,388 new Ordinary shares in the Company at an offer price of 70.25 pence per share. These proposals were by way of two offers closing on 5 April 2011 and 29 April 2011 respectively. The closing date for the offer in relation to the tax year 2011/2012 was subsequently extended to 4 May 2011. Pursuant to the offers an initial allotment of £2,567,989 for 3,655,500 Ordinary shares was made on 22 March 2011.

10. Financial Information

The financial information set out here for the year ended 31 December 2010 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 2010 will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 16 May 2011. 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 2010 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 2010 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 P Waller.

13. Annual General Meeting

The Annual General Meeting of the Company will be held at 33 St James Square, London, SW1Y 4JS, on 16 May 2011 at 12.00 noon.

For further information, please contact:

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