

Another Record Year Demonstrating the Positive Impact of Private Equity.

Welcome to the latest edition of Insight.

Much has been written lately about the negative aspects of private equity, but very little has been written about the positive impact that private equity and venture capital can have. YFM Private Equity (YFM PE) has over 25 years experience of working with innovative and fast growing unquoted and AIM listed companies who are seeking equity funding of up to £8 million to facilitate management buy-ins or buy-outs, acquire other small firms, or development capital to expand their business. This has enabled entrepreneurs and business owners to increase the value of their company, create hundreds of jobs, improve competitiveness and help their companies outperform the market and drive the growth of UK plc.

October marked the end of the YFM Private Equity's financial year, which has proved to be our busiest and most successful yet. This edition of Insight picks out some of the highlights over the last 12 months which has seen a further £50 million raised, £16 million invested in companies throughout the UK, and £12.5 million of investments realised making on average 3 times money for our investors across all funds managed. We are proud to have been awarded two prestigious National awards for our management and the performance of the British Smaller Companies VCT and the North West Business Investment Scheme.



As we enter 2008 there is a greater level of uncertainty in the financial markets than there has been at any time in the last five years. If this continues then for those prepared to take the medium to long-term view there could be good value to be had in 2008. In anticipation we have increased our liquidity and will seek to increase this further through our venture capital trusts and other fundraisings. We have also moved to ensure that our investment portfolio is not over-leveraged.

Our aim in doing this has been to lock in gains where possible and increase liquidity to be able to take advantage of any downward movement in valuations.

Dave Hall

Managing Director – YFM Private Equity

Venture Capital Trusts

This year both Venture Capital Trusts have continued to pay dividends following successful realisations. British Smaller Technology Companies VCT 2 plc has continued to co-invest in later stage investments alongside British Smaller Companies VCT plc increasing the income generated from its investment portfolio. Both Venture Capital Trusts have delivered growth in the year and continue to both seek new investment and continue to realise the maturing investments.

	British Smaller Companies VCT plc	British Smaller Technology Companies VCT2 plc
Net Asset Value 30.09.07	£26.7 m	£13.8m
3 year growth ¹	58.8%	4.9%
5 year growth ¹	99.9%	1.2%
Dividend in last 3 years ²	15.8p	10.5p
Current share price ³	89.5p	48.0p
Yield ⁴	5.88%	7.29%
Tax free yield ⁵	9.81%	12.15%

1 www.trustnet.co.uk 12.11.07. 2 Paid and declared per share 3 years ending 30.09.07. 3 London Stock exchange mid price 12.11.07. 4 Average of last 3 years dividend divided by current share price. 5 Yield grossed up for 40% tax payer.

It is particularly pleasing that this year the performance of British Smaller Companies VCT plc combined with some key realisations has meant that YFM Private Equity were judged to be the VCT Fund Manager of the Year by Growth Company Investor and short listed as VCT of the Year by the Investor Allstar Awards and Investment Trust of the year by Unquote magazine.



Forthcoming £5 million Fundraising for British Smaller Companies VCT plc

This year has seen a strong flow of investment opportunities which has resulted in an increased level of investment. Our view is that this is likely to continue in to 2008 and beyond and that market uncertainty may well see valuable opportunities for investors. Consequently British Smaller Companies VCT plc has announced that it will be seeking to top up last year's offers by launching a further £5 million fundraising. It is anticipated that this will be available subject to shareholders approval in January next year.

Bonus Offer!

It is again our intention to reward the BSC VCT Shareholders for their loyalty and support by way of a bonus offer of shares for early applications. The proposed Offer which is subject to Shareholder approval will be 25 free shares for every 1,000 applied for on or before the 21 March 2008.

Details will be circulated early 2008

Chandos Fund

In January 2007 The Chandos Fund was launched. Ten months later the fund has reached it's second closing exceeding expectations and taking it to a £37m fund. The fund has already completed three investments and is looking at a number of other opportunities. Chandos is an important addition to the YFM Group portfolio allowing YFM Group to provide equity amounts up to **£8m** throughout the UK.

YFM Group is the most active investor in UK SMEs and this fund takes total funds under management over £300 million*. The Chandos Fund will be drawing on the networks and experience of its investment managers in YFM Group's offices across the UK including London, Leeds, Manchester and Bristol. The Chandos Fund invests in small fast growing businesses targeting buy-outs, buy-ins, development capital, pre IPO rounds and equity release/partial sales.

Paul Cannings, Director of the Chandos Fund said:

"We are delighted to have reached fund size with this second close which has attracted both new investors and increased support from our existing ones. We are continuing to see strong deal flow from the contact base of YFM Group's national network of offices and we look forward to making more investments in exciting small businesses with excellent management and strong growth prospects."

The Chandos Fund invests across all sectors with a particular interest in consumer brands, technology and service businesses. Its first 3 investments have been in RMS Europe, Harvey Jones, both featured in our case studies section on page 4&5, and Harris Hill.

*Source VCR – Based on number of investments completed by YFM Venture Finance and YFM Private Equity in the 48 months to June 2007.

NWBIS

This has been another excellent year for the North West Business Investment Scheme which has been awarded the Investor Allstars UK Equity Gap Fund of the Year 2007.

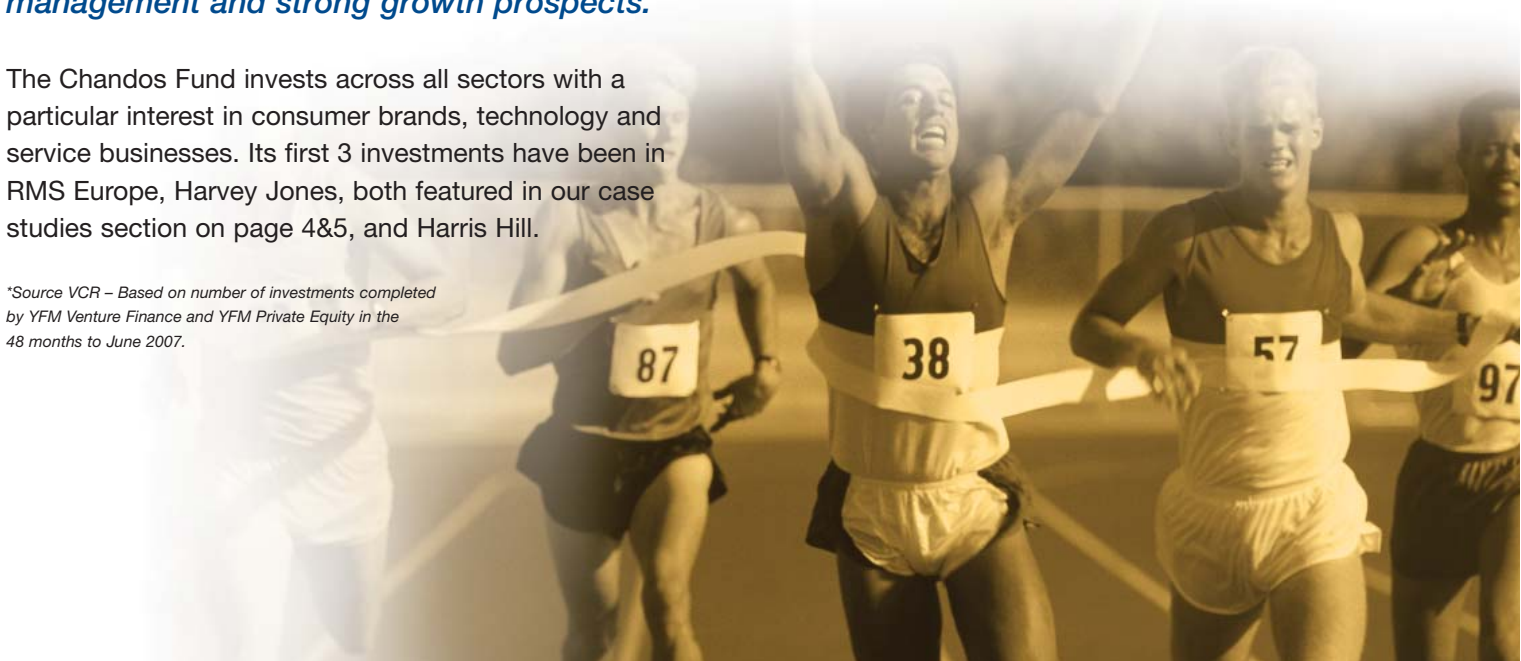


"This Award is recognition of the quality of the North West's businesses. We have made 83 investments in 45 companies since the outset bringing together deals worth over £138 million to the region. We would like to thank all those who helped us put those investments together and those that invested alongside us, and, most of all, the companies for performing so well."

says Doug Stellman, Investment Manager."

This is the second time NWBIS has been recognised for its excellent performance, following on from last year's success at the North West Business Insider Awards, when it was awarded Fund of the Year.

NWBIS is an innovative fund designed to offer flexible investment structures for both start ups and more established North West businesses investing alongside other investors. Priority is given to all our other funds to invest first with NWBIS filling any gap.



Thanks to all of you in our extensive network of advisers, non-executive directors and entrepreneurs, who refer deals to us. We see more deals than anyone else, and can often see deals other investors don't, and the last 12 months have been our most active ever. Our investment teams have looked at over 450 investment submissions, which has resulted in YFM Private Equity investing £16 million.

As ever we have backed a wide range of businesses. Approximately 75% of the investments made this year were in to business purchases, (management buy-outs or buy-ins). The remaining 25% of investments were in the form of development capital to support the expansion plans of companies demonstrating strong sales growth operating in growing markets. In particular a number of these investments were in the telecommunications, software and healthcare sectors.

Our portfolio now comprises in excess of 80 companies operating in a wide variety of industry sectors. More details of three of these investments made in the last twelve months are included here.

Did you know...?

Purchasing VCT shares on the market

There are a number of the tax advantages that still apply to shares bought on the market. All dividends are tax free and any gain is exempt from CGT and again these reliefs continue after death. Whilst there is no upfront tax relief there is no minimum holding period to qualify for the reliefs. As an example BSC has in the last 12 months paid dividends of 5 pence per share. The current share price is 91.75 pence equating to a tax free yield of 5.4% or 9.1% to a higher rate tax payer.

CASE STUDY 1

Total deal size: £21m



RMS Holdings Limited

We invested to support the £21 million secondary MBO of shipping and logistics specialist RMS Group.

With investment from four of the funds managed by YFM Group:- the British Smaller Companies VCTs were joined by the Chandos Fund and Partnership Investment Finance (PIF). The activities of RMS Group are based on the UK's busiest trading estuary, the River Humber.

The Group provides Shipping, Stevedoring, Storage / Warehousing and supporting Logistics services for both Import and Export cargoes moving between Northern Europe, Scandinavia & the Baltic, Russia, the Iberian Peninsula and the Mediterranean. RMS operates from five sites on the Humber estuary handling in excess of 2 million tonnes of cargo a year. The funding will allow the further growth of the company with the new management team led by Peter Aarasin who has wide experience in the shipping and logistics industry.

" We are delighted to back Peter and his management team. We believe the ports sector is an exceptionally strong one, with good growth opportunities"

Nigel Barraclough, Investment Manager

CASE STUDY 2

Total deal size: £7m



Harvey Jones Kitchens

YFM Private Equity provided £3.5 million to back the MBO of fitted kitchen specialist Harvey Jones.

The Chandos Fund invested £2.3million alongside £1.2 million from the British Smaller Companies VCT and British Smaller Technology Companies VCT 2 and a debt package from HSBC.

Harvey Jones is a long established business with a strong reputation for the quality of its manufacturing and for providing real value for money. The business manufactures most of the kitchens and furniture in its own joinery in Wisbech and sells through 10 retail stores throughout the UK. Sales have been growing well, with like for like sales up 7% pa over the last three years. With a proven formula for expansion, there is now a good opportunity to double the number of stores over the next three years.

YFM Private Equity has introduced an industry experienced chairman with particular expertise in retail expansion.

“This is an exciting time for the Company and we have ambitious growth and development plans. YFM Private Equity has been supportive and straight forward throughout the buyout process and are an ideal partner for us as we grow”

John Curwen, Managing Director of Harvey Jones

CASE STUDY 3

Total deal size: £4.7m



Cater Plus

YFM Private Equity has backed the acquisition of contract catering services provider Cater Plus Services Limited.

The business established in 1991 supplies catering, procurement, housekeeping, training and consultancy services to a wide range of care homes, shelters and schools. The management team aim to further expand the business throughout the UK, with an office already opened in Crewe. With over 50 customer premises, the company now has the financial backing to extend its reliable high-quality service across the country and into new markets.

“The opportunity to take a stake in Cater Plus Services and grow a business with a strong operational and financial platform in a sector we are familiar with is one that we are very excited about. It is our intention to continue the business’ high standards of service delivery and quality of freshly prepared food that is enjoyed by our customers, employees, residents, clients and pupils”

Mr. Lovett, Managing Director of Cater Plus

It is pleasing to see that a large part of the growth achieved in the last year has been delivered from the realisation of successful investments. There are various ways of realising unquoted investments and an analysis of our own disposals demonstrates this:

Sold to	No.	% by value
UK based corporates (Trade sale)	5	5
AiM listing	2	14.4
Private equity/debt backed	3	22.4
Overseas corporates	1	4.0
Total		100.0

In order to achieve these realisations we work closely with specialist advisers both UK and overseas-based.

The role of the corporate finance adviser is a vital part in this process and we are fortunate enough to know and work with some of the best.

This year is not untypical with the majority of the realisations from our portfolio being by way of a trade sale and in the main to other UK based companies.

These realisations have been financed from corporate balance sheets which in the main are still not subject to high degrees of leverage. 2008 may see some pressure on the markets and the larger based equity-backed business may not have access to the debt capacity that they have enjoyed in recent years.

However, a range of alternative realisation options can help to diversify that risk and whilst the level of realisations may not be as great there always remains a market for the quality business that fits the strategic need of the larger group.

Did you know...?

Pearls have been regarded as precious for thousands of years. They were a favourite of Julius Caesar, Cleopatra dissolved a pearl in wine and drank it to prove her love to Marc Antony. The Greeks considered the pearl the ultimate symbol of love and marriage. The famous jeweller, Jacques Cartier bought his New York store in 1916 by trading two pearl necklaces for the building.

Natural pearls are found in only one of every 100 animals, and only one in ten of those are of good quality. Formed when a foreign body becomes lodged in the oysters shell, pearls can take from a few months to many years to produce.

The most commonly eaten type of oyster do not produce pearls, edible oysters do not develop nacre the crystalline substance which builds up the pearl.

To test if it is real, rub the pearl gently across your teeth. A real pearl will feel gritty, but an artificial pearl will feel smooth and slippery.



CASE STUDY 4

Total deal size: £1.4m

Cozart

YFM Private Equity has successfully exited from its investment made through BSC VCT and BSTC VCT 2 in Cozart plc, following its acquisition by Aim listed Concateno plc under an agreed offer for £64.4 million.



Established in 1993, Cozart is a medical diagnostics company specialising in the development and supply of testing devices for drug abuse.

Their range of portable devices are used by the Home Office and by police forces throughout the UK for on-site drugs of abuse testing, and a recent collaboration with Philips Electronics has led to the development of a hand-held device for use at the roadside.

This is now the subject of a commercialisation agreement with Philips which should lead to launch of the device by mid 2009. YFM Private Equity's first investment was made in 2001 and at that time it was the only Venture Capital Trust investor. The business was floated on AIM in July 2004 and has since made acquisitions in both the UK and Europe, expanding its geographical and technological reach. Concateno is executing a consolidation strategy in the drugs of abuse testing market and so is a natural partner for Cozart's further development.



Investor Workshops

Date for your diaries...

The next Investor Workshop is taking place on 19 February 2008 at The Tower of London.

Each year we host investor workshops, these events give you the opportunity to meet with our fund managers, raise any questions you may have and hear from a selection of our portfolio companies.

We continue to strive to find venues that we hope will be of interest, and offer speakers who will give an insight into the VCT market.

The venue for the workshop is The Tower of London from 11.00 to 1.30. This includes lunch and the opportunity to take a look around the Tower at your own leisure after the event. On the reverse of this page you will find the booking form, please complete and we look forward to meeting you.



Richard Last Biography

**Non-Executive Director of BSC VCT and BSTC VCT 2
As of 1 January 2008 will become Chairman of BSTC VCT 2**

Richard has worked with YFM Group since 1996 when he became a non-executive director of British Smaller Companies VCT plc, and later British Smaller Technology Companies VCT 2 plc.

In 1992 Richard became Managing Director of Lynx Holdings plc. Richard was instrumental in leading and growing Lynx both organically and by acquisition until it was taken over by Skandia Group in 2002. At the same time Richard led a Management buyout of the Lynx IT businesses not wanted by Skandia.

Richard is a Fellow of the Institute of Chartered Accountants, in England and Wales. He qualified with Coopers and Lybrand, and graduated from Sheffield University with a degree in Political Theory and Institutions.

Richard is also one of the trustees of the GapAid Trust, which has been set up to help Gap Year students who go travelling and find that they need help or advice whilst away from the UK. This trust was set up earlier this year after one of Richard's daughters did exactly that and found there was no where to turn to when a fatal accident happened to one of the party that she was travelling with.

Leisure time Richard enjoys the opera, theatre, skiing, walking, and shooting as well as travelling with his family.

Further information

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YFM Private Equity Limited is authorised and regulated by the Financial Services Authority and is a member of the British Venture Capital Association (BVCA).

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I would like to attend the workshop at The Tower of London 19 February 2008.

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