BRITISH SMALLER COMPANIES VCT2 PLC
Annual Financial Report Announcement for the Year to 31 December 2017

British Smaller Companies VCT2 plc (the "Company") today announces its audited results for the year ended 31 December 2017.

HIGHLIGHTS

- An increase in total return of 3.5 per cent of the opening net asset value.
- 5.7 per cent underlying growth in the investment portfolio.
- The sale of Selima Holding Company Ltd delivered proceeds of £1.0 million, achieving a multiple of 3.7x original cost, with the potential for further consideration.
- Total dividends paid in the year of 3.0 pence per ordinary share (2016: 4.5 pence per ordinary share).
- Total cumulative dividends paid since inception of 55.5 pence per ordinary share (2016: 52.5 pence per ordinary share).
- Proposed final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2017.
- Successful fundraising during the year, raising net proceeds of £4.1 million.

CHAIRMAN'S STATEMENT

I am pleased to report that the Company has made good progress during the year with a total shareholder return of 2.1 pence per ordinary share. This equates to 3.5 per cent of the net asset value at 31 December 2016 and total shareholder return is now 114.3 pence per ordinary share.

Your Company's portfolio delivered a steady performance over the year, generating a return of 5.7 per cent over its opening value. New and follow-on investments totalling £2.37 million have also been completed.

Realisations in Year

Two full realisations were achieved in the year:

In May 2017 the Company realised its investment in **Selima Holding Company Ltd** generating initial proceeds of £1.0 million. The total return (including income) from this investment so far is £1.11 million, a multiple of 3.7x cost. There is the potential for additional contingent consideration of up to a maximum of £0.7 million, subject to the achievement of agreed milestones over the period to November 2019.

In August 2017 the Company realised its residual interest in **Harvey Jones Holdings Limited** for £0.56 million. This takes the total return from this investment to £1.87 million, a multiple of 1.6x cost.

New Investment

During the year your Company completed two new investments and made three follow-on investments.

In July 2017 your Company completed a £1.2 million investment into **Friska Limited**. Friska operates a chain of "food-to-go" restaurants centred in Bristol. This retail chain has a clear roll out strategy to extend to new UK locations building a distinctive 'Feel Good Food' brand. The Company's investment is being used to both support new store openings and invest in management and infrastructure to allow the business to scale its operations.

In September 2017 an investment of £0.6 million was completed into **e2E Engineering Limited**, a technical consultancy business operating in the satellite communications market. The business is utilising new technologies to become a niche managed service communications provider focusing on areas currently under-served by existing solutions. The Company's investment formed part of a £1.9 million round to commercialise the first of e2E's products in conjunction with the European Space Agency.

Follow-on investments totalling £0.57 million were made into **existing portfolio companies**.

Financial Results

In the year to 31 December 2017 your Company's total return increased by 2.1 pence per ordinary share to 114.3 pence per ordinary share, driven mainly by the underlying value growth in the investment portfolio. This equates to an increase of 3.5 per cent on the opening net asset value at 31 December 2016.

During the year your Company has paid total dividends of 3.0 pence per ordinary share, bringing the total cumulative dividends paid since inception to 55.5 pence per ordinary share. The net asset value at 31 December 2017 is 58.8 pence per ordinary share as summarised in the table below:

		Pence per ordinary share		£000
NAV at 31 December 2016			59.7		56,109
Net underlying increase in portfolio		2.2		2,249	
Net loss after expenses		(0.2)		(180)	
Issue/buy-back of new shares		0.1		3,898	
		2.1		5,967	
Dividends paid		(3.0)		(3,020)	
			(0.9)		2,947
NAV at 31 December 2017			**58.8**		**59,056**
Cumulative dividends paid			55.5		
Total return:	**at 31 December 2017**		**114.3**		
	at 31 December 2016		112.2		

The charts on page 10 of the annual report show in greater detail the movement in total return, net asset value and dividends paid over time.

The investments held at 31 December 2016, amounting to £39.32 million, delivered a return over the year of £2.25 million, equivalent to an increase in value for shareholders of 2.2 pence per ordinary share. This return comprises a gain on the revaluation of the portfolio of £2.21 million and a net gain over the opening value from the realisation of investments and deferred proceeds of £0.04 million.

Within the current portfolio there were £4.88 million of unrealised gains offset by £2.67 million of unrealised losses. There were strong performances from Matillion Limited, GTK (Holdco) Limited, Deep-Secure Ltd, Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office), Ketech Enterprises Limited, ACC Aviation, Business Collaborator Limited and Mangar Health Limited, which in part were offset by the poorer performances of DisplayPlan Holdings Limited, Immunobiology Limited and The Heritage Window Company Holdco Limited.

The realisation of Selima Holding Company Ltd contributed profits on their 31 December 2016 carrying value of £0.41 million and this was offset by losses of £0.55 million on the refinancing of The Heritage Window Company Holdco Limited. The latter also had a negative impact on the year's income, with a provision of £0.29 million against loan interest and preference dividends.

Shareholder Relations

Annual General Meeting

The Annual General Meeting of the Company will be held at 12:00 noon on 9 May 2018 at 33 St James Square, London, SW1Y 4JS. Full details of the agenda for this meeting are included in the Notice of the Annual General Meeting on page 75 of the annual report.

Dividends

Dividends paid in the year comprise a final dividend of 1.5 pence per ordinary share in respect of the year ended 31 December 2016, and an interim dividend of 1.5 pence per ordinary share in respect of the financial year just ended, totalling 3.0 pence per ordinary share. This brings the cumulative dividends paid to 55.5 pence per ordinary share.

As highlighted in previous statements the VCT rules introduced and implemented in 2015 will lead to more investments in earlier stage businesses. The unquoted portfolio as at 31 December 2017 comprised £31.18 million (82 per cent) of investments made prior to the implementation of this change and £6.96 million (18 per cent) after this time. Whilst the older investments in the portfolio may provide an element of more stable returns in the short term, over the medium and longer term returns are expected to have a higher degree of volatility.

With this in mind and to maintain a sustainable level of future dividends the Board is proposing a final dividend of 1.5 pence per ordinary share for the year ended 31 December 2017. This final dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and if approved will then be paid on 11 May 2018 to shareholders on the register at 3 April 2018. The ex-dividend date is 29 March 2018.

Dividend Re-investment Scheme ("DRIS")

Your Company operates a DRIS, which gives shareholders the opportunity to re-invest any cash dividends and is open to all shareholders, including those who invested under the recent offers. The three advantages of the DRIS are:

1. the dividends remain tax free;
2. any DRIS investment attracts income tax relief at the rate of 30 per cent; and
3. the investment is made at a 5 per cent discount to the last reported net asset value.

For the financial year ended 31 December 2017 dividends totalling £0.66 million were invested in your Company by way of the DRIS.

Fundraising

During the first half of the financial year your Company raised net proceeds of £4.1 million through a "top-up" offer.

Subsequent to the year-end your Company launched a further top-up fundraising on 11 January 2018. The offer was fully subscribed from existing shareholders and was not therefore opened to new shareholders, closing on 26 January 2018. The Company allotted 7,366,700 ordinary shares on 16 February 2018 raising net proceeds of £4.3 million and following this allotment there were 107,857,275 ordinary shares in issue.

Shareholder Relations

The Investment Adviser recently commissioned a survey to identify shareholder reasons for investing in VCTs and it is very pleasing that more than 1,000 shareholders replied. The results identified that primary drivers for investment are the tax reliefs and also the dividend yield. The recent Budget did not change the tax treatment on VCT dividends which I am sure is a positive for the industry and its shareholders. Almost half of the respondents (45 per cent) said they chose VCTs in order to support growing UK businesses and the investments in Selima and Harvey Jones reported earlier are good examples of the successes achieved by your Company in supporting the UK economy.

Shareholders also indicated a strong preference to be patient investors with 64 per cent having held their investment for more than 10 years and 32 per cent wanting information on how to transfer their shares to the next generation in their family.

The electronic communications policy continues to be a great success, with 83 per cent of shareholders now receiving communications in this way. Documents such as the annual report are disseminated via the website www.bscfunds.com rather than by post, saving on printing costs, as well as being more environmentally friendly.

Your Company's website www.bscfunds.com is refreshed on a regular basis, and provides a comprehensive level of information in what I hope is a user-friendly format.

The next Investor Workshop will take place on 16 May 2018 and is being held at the HAC – Honourable Artillery Company, Armoury House, City Road, London, EC1Y 2BQ.

Share Premium Cancellation

On 21 September 2017 the Company cancelled the balance of its Share Premium, £20.58 million, which was transferred to the Capital Reserve. As set out under the Statement of Changes in Equity this will become available for distribution at various times over the period to 1 January 2021.

Regulatory Developments

The new rules set out in the November 2017 Budget and the outcome of the Patient Capital Review included some changes principally to ensure that investment activity remains targeted at younger UK-based smaller businesses. The technical changes around investment structures are likely to see an even more sparing use of loan finance, with instruments now being unsecured but in general these changes are not expected to have a material impact on the Company. There was, however, a significant change with regards to investment limits which saw a doubling in the annual investment limit for Knowledge Intensive businesses to £10 million from £5 million. The lifetime investment limit for these businesses is £20 million. This provides the opportunity for the Company to provide greater amounts of capital for scale up investment for individual businesses than previously.

HMRC are still struggling to process applications for advance assurance. Despite HMRC's stated intention of bringing the approval process down to fifteen workings days for the significant majority of investments this has yet to be achieved. In fact in the short term waiting times seem to have increased and the Company has potentially lost one investment opportunity for £2 million where advance assurance had been requested but no response received in time.

This is not unique to your Company and the Investment Adviser and other VCT advisers are lobbying HM Treasury and HMRC to remedy this situation.

Post Balance Sheet Events

In March 2018 the Company made a new investment of £0.98 million into Ncam Technologies Limited and also made a follow-on investment of £0.38 million into Matillion Limited.

Outlook

The Board recognises that the new regulatory environment for VCTs will change the portfolio's composition over time. New investments will be in growing, earlier-stage businesses that will be less able to fund debt instruments or pay dividends with the result that the Company's ability to pay dividends will become increasingly dependent on the timing and amount of realisation proceeds.

The population of potential investments has been limited by recent legislative changes and this has led to some pressure on investment terms and pricing, especially in competitive processes. A number of other VCTs have recently raised large amounts of new funding and combined with new rules that come into effect in the near future this may see these pressures increase further. Nonetheless the recent changes that increase the investment limits in respect of Knowledge Intensive businesses allowing greater funding in any one year and a £20 million lifetime limit are welcomed as this affords the opportunity to follow investments as they scale.

It is pleasing that HMRC have recently given advance assurance for a number of potential investments (including Ncam Technologies Limited) and the Company is well placed to continue to pursue its objective of delivering long-term value through a diversified portfolio.

Richard Last
Chairman

OBJECTIVES AND KEY POLICIES

The Company's objective is to provide investors with an attractive long-term tax free dividend yield whilst maintaining the Company's status as a venture capital trust.

Investment Policy

The Company's investment policy is to create a portfolio that blends a mix of businesses operating in traditional industries with those that offer opportunities in the application and development of innovation. Investing across a range of companies and sectors reduces exposure to particular markets and individual companies. The changes to the VCT legislation in November 2015 and those announced in the November 2017 Budget mean that there is greater emphasis on opportunities focussing on the application and development of innovation in their particular markets.

To this end the Company will invest in UK businesses across a broad range of sectors including but not limited to software, information technology and telecommunications, retail and brands, business services, manufacturing and industrial services and healthcare. These investments will primarily be in unquoted UK companies which meet the definition of a Qualifying Investment, in order to maintain the Company's VCT status. It is anticipated that the majority of these businesses will be re-investing their profits for growth and the investments will, therefore, comprise mainly equity instruments.

Borrowing

The Company funds the investment programmes out of its own resources and has no borrowing facilities for this purpose.

Co-investment

British Smaller Companies VCT2 plc and British Smaller Companies VCT plc ("the VCTs") have in aggregate first choice of all investment opportunities meeting the VCT qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million will be allocated one third to YFM's co-investment funds and two thirds to the VCTs. Where there are opportunities for the VCTs to co-invest with each other the basis for allocation is 40 per cent to the Company and 60 per cent to British Smaller Companies VCT plc. The Board of the Company has discretion as to whether or not to take up or, where British Smaller Companies VCT plc does not take its allocation, increase its allocation in such co-investment opportunities.

Asset mix

Pending investment in VCT-qualifying securities, surplus cash is primarily held in interest bearing instant access, and short-notice bank accounts. Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes AIM investments in this category.

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom being non-executive directors, can be found on page 40 of the annual report.

Other Key Policies

Details of the Company's policies on the payment of dividends, the DRIS and the buy-back of shares are given on the inside of the front cover of the annual report. In addition to these the Company's anti-bribery and environmental and social responsibilities policies can be found on page 29 of the annual report.

PROCESSES AND OPERATIONS

The Investment Adviser is responsible for the sourcing and screening of initial enquiries, carrying out suitable due diligence investigations and making submissions to the Board regarding potential investments. Once approved, further due diligence is carried out and HMRC clearance is obtained as the Board deem necessary for approval as a Qualifying Holding.

The Board approves all investment and divestment decisions save in that new investments up to £250,000 in companies whose securities are traded on a regulated stock exchange and where the decision is required urgently, in which case the Chairman of the Board of Directors, if appropriate, may act in consultation with the Investment Adviser.

The Board regularly monitors the performance of the portfolio and the investment requirements set by the relevant VCT legislation. Reports are received from the Investment Adviser regarding the trading and financial position of each investee company and senior members of the Investment Advisory Team regularly attend the Company's Board meetings. Monitoring reports are also received at each Board meeting on compliance with VCT regulations so that the Board can monitor that the Venture Capital Trust status of the Company is maintained and take corrective action if appropriate.

The Board reviews the terms of YFM Private Equity Limited's appointment as Investment Adviser on a regular basis.

YFM Private Equity Limited has performed investment advisory, administrative and secretarial services for the Company since its inception on 28 November 2000. The principal terms of the agreement under which these services are performed are set out in note 3 to the financial statements.

Performance Incentive

The Investment Adviser will receive an amount (satisfied by the issue of shares) equivalent to 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the middle market price per ordinary share on the five dealing days prior to that day, exceeds 120 pence per ordinary share, multiplied by the number of ordinary shares issued and the ordinary shares under option (if any) (the "Hurdle"). Under the terms of the Subscription Rights Agreement, once the Hurdle has been exceeded it is reset at that value going forward, which becomes the new Hurdle. Any subsequent exercise of these rights will only occur once the new Hurdle has been exceeded. The subscription rights are exercisable in the ratio 95:5 between the Investment Adviser and Chord Capital Limited. Further details are given in note 3 to the financial statements.

In the opinion of the directors the continuing appointment of YFM Private Equity Limited as Investment Adviser is in the interests of the shareholders as a whole in view of its experience in advising venture capital trusts and in making, managing and exiting investments of the kind falling within the Company's investment policies.

KEY PERFORMANCE INDICATORS

The commonly used benchmarks of performance for VCTs are **total return**, calculated as cumulative dividends paid plus net asset value, and **dividends paid**. The charts on page 10 of the annual report show the performance history of these benchmarks.

The evaluation of comparative success of the Company's total return is by way of reference to the share price total return for approximately 50 generalist VCTs as published by the Association of Investment Companies ("the AIC"). This is the Company's stated benchmark index. A comparison and explanation of the calculation of this return is shown in the Directors' Remuneration Report on page 42 of the annual report.

Shareholder Returns

The table below shows the cumulative dividends, the total return on each fundraising round per ordinary share and the total return if a shareholder had opted to participate in the Company's DRIS. The cumulative dividend and total return figures in this table exclude the benefits of all tax reliefs, whilst the last column includes the benefit of tax reliefs as noted.

Tax year	Net asset value as at 31 December 2017	Cumulative dividends paid since fundraising	Total return since fundraising / date of acquisition	Offer price	Offer price net of initial tax relief	Overall return including tax relief since fundraising with participation in the DRIS [1]
	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02	58.8	55.5	114.3	100.0	80.0	180.3
2001/02 and 2002/03	58.8	55.5	114.3	100.0	80.0	180.3
December 2005 issue of shares on acquisition of British Smaller Technology Companies [2]	40.4	37.2	77.6	100.0	80.0	178.9
2009/10 and 2010/11	58.8	33.5	92.3	77.3	54.1	137.8
2010/11 and 2011/12	58.8	29.5	88.3	70.3	49.2	127.9
2012	58.8	25.5	84.3	70.5	49.4	120.3
2012/13 and 2013/14	58.8	21.0	79.8	68.0	47.6	111.6
2013/14 and 2014/15	58.8	16.5	75.3	68.0	47.6	103.9
2014/15 and 2015/16	58.8	12.0	70.8	65.0	45.5	95.7
2015/16	58.8	7.5	66.3	63.0	44.1	88.3

Notes

1. NAV plus tax relief on the initial subscription plus additional tax relief and NAV on DRIS shares purchased. Assuming that all dividends since inception were invested under terms of current DRIS
2. Assuming initial offer price and initial tax relief from original subscription in British Smaller Technology Companies VCT plc

Expenses

Ongoing Charges

The Board monitors expenses using the Ongoing Charges figure, as calculated in line with the AIC recommended methodology. This figure shows shareholders the annual percentage reduction in net asset value as a result of recurring operational expenses which, whilst based on historical information, provides an indication of the likely level of costs that will be incurred in managing the Company in the future.

Expenses	**Year to 31 December 2017 (%)**	Year to 31 December 2016 (%)
Ongoing Charges figure	**2.48**	2.51

Expenses Cap

The total costs incurred by the Company in the year (excluding any performance related fees, trail commission payable to financial intermediaries and VAT) is capped at 2.9 per cent of the total net asset value as at the relevant year end. The treatment of costs in excess of the cap is described in note 3 on page 58 of the annual report. There was no breach of the expenses cap in the current or prior year.

Compliance with VCT Legislative Tests

The main business risk facing the Company is the retention of VCT qualifying status. The Board receives regular reports on compliance with the VCT legislative tests from its Investment Adviser. In addition the Board receives formal reports from its VCT Status Adviser twice a year. The Board can confirm that during the period all of the VCT legislative tests have been met.

Under Chapter 3 Part 6 of the Income Tax Act 2007, in addition to the requirement for a VCT's ordinary share capital to be listed in the Official List on a European regulated market throughout the period, there are a further five specific tests that VCTs must meet following the initial three year provisional period.

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

Income Test

The Company's income in the period must be derived wholly or mainly (70 per cent) from shares or securities.

Retained Income Test

The Company must not retain more than 15 per cent of its income from shares and securities.

Qualifying Holdings Test

At least 70 per cent by value of the Company's investments must be represented throughout the period by shares or securities comprised in Qualifying Holdings of investee companies.

Eligible Shares Test

At least 30 per cent of the Company's Qualifying Holdings must be represented throughout the period by holdings of non-preferential ordinary shares.

For monies raised from 6 April 2011 onwards the eligible shares test above increases to at least 70 per cent of Qualifying Holdings that must be represented by eligible shares.

In addition, monies are not permitted to be used to finance buy-outs or otherwise to acquire existing businesses or shares.

There is also an annual limit for each investee company which provides that they may not raise more than £5 million of state aid investment (including from VCTs) in the 12 months ending on the date of each investment (£10 million for Knowledge Intensive Companies).

Maximum Single Investment Test

The value of any one investment has, at any time in the period, not represented more than 15 per cent of the Company's total investment value. This is calculated at the time of investment and further additions and therefore cannot be breached passively.

The Budget in November 2017 introduced further changes that come into effect in future years and more detail on these is given on page 16 of the annual report under the heading "Budget Highlights and Patient Capital Review".

Further restrictions placed on VCTs are:

Dividends from cancelled share premium

The Finance Act 2014 introduced a restriction with respect to the use of monies in respect of VCTs. In particular, no dividends can be paid out of cancelled share premium arising from shares allotted on or after 6 April 2014 until at least three full financial years have elapsed from the date of allotment.

Of amounts relating to cancelled share premium £20.24 million remains undistributable until on or after 1 January 2019.

Other

The Finance (No. 2) Act 2015 imposes further conditions in respect of investments, including those regarded as non-qualifying investments, including:

i) An aggregate limit of £12 million (or £20 million for Knowledge Intensive Companies) on the amount of State Aid Risk Finance investment a business can receive during its lifetime;

ii) No more than seven years can have elapsed since the first commercial sale achieved by the business (ten years in the case of a Knowledge Intensive Company), unless:
   a. the business has previously received an investment from a fund that has received state aid; or
   b. the investment comprises more than 50 per cent of the average of the previous five years' turnover and the funds are to be used in the business to fund growth into new product markets and/or new geographies.

INVESTMENT PERFORMANCE

Portfolio Structure and Diversity

Set out on page 13 of the annual report is a profile of the investment portfolio by age, value compared to cost, investment instrument and industry sector. This illustrates the broad range of the investment portfolio with 71 per cent of the portfolio valuation being held for more than 3 years, whilst 88 per cent is held at cost or above. 47 per cent of the portfolio's value is held in income generating financial instruments.

Investment Review

The portfolio delivered a strong performance in the year, with a return of £2.25 million on the opening value and income of £1.41 million.

Your portfolio

The portfolio as a whole delivered an increased value of £2.25 million in the year, as shown in Table A below. A value gain of £1.45 million has come from the unquoted portfolio with strong performances from Matillion Limited, GTK (Holdco) Limited, Deep-Secure Ltd and Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office) offset by the impact of difficult trading conditions at DisplayPlan Holdings Limited, Immunobiology Limited and The Heritage Window Company Holdco Limited. DisplayPlan suffered from its exposure to the retail sector, with a number of clients cutting back expenditure. Management at Heritage Windows has been changed and in December 2017 its funding was restructured, receiving additional funding of £0.5 million with the new team investing alongside to drive future performance.

Table A **Investment portfolio**	**£million**	**%**
Unquoted value gain	1.45	64
Quoted value gain	0.76	34
Gain on disposal over opening value	0.01	1
	2.22	99
Gain from deferred proceeds	0.03	1
Total value movement	**2.25**	**100**

At 31 December 2017 the investment portfolio was valued at £40.42 million, representing 68.4 per cent of net assets (70.1 per cent at 31 December 2016). Cash at 31 December 2017 was £17.67 million representing 29.9 per cent of net assets (28.3 per cent at 31 December 2016). In April 2016 a new VCT rule came into force preventing your Company from holding deposits with more than seven days' notice. While this did not require pre-existing deposit/notice accounts to be closed, over time this will limit the level of income that can be generated from cash awaiting investment. As a result the Board continues to review alternative investments that would generate a higher level of income while minimising the level of risk.

Other Significant Investment Movements

Investments

During the year ended 31 December 2017 the Company completed 5 investments totalling £2.37 million. This comprised 2 new investments of £1.80 million and 3 follow-on investments of £0.57 million. The analysis of these investments is shown in Table B below. The case study on page 17 of the annual report gives more information on the investment in Friska Limited.

Table B **Date**	**Company**	**Investments made £million** **New**	 **Follow-on**	 **Total**
Mar-17	PowerOasis Limited	-	0.06	0.06
Jun-17	Sipsynergy (via Hosted Network Services Ltd)	-	0.41	0.41
Jun-17	Immunobiology Limited	-	0.10	0.10
Jul-17	Friska Limited	1.20	-	1.20
Sep-17	e2E Engineering Limited	0.60	-	0.60
	Invested in the year	1.80	0.57	2.37
	Capitalised interest and dividends			0.06
	Total additions in the year			**2.43**

Disposal of Investments

During the year to 31 December 2017 the Company received proceeds from disposals, repayments of loans/preference shares and deferred consideration of £3.57 million. Overall this resulted in a value gain on disposal of investments of £0.04 million above the 31 December 2016 valuations as set out in Table C. The case study on page 17 of the annual report gives some insight into the value created from the investment in Selima Holding Company Ltd.

Table C **Disposal of Investments**	**Net proceeds from sales of investments £million**	**Opening value 31 December 2016 £million**	**Gain on opening value £million**
Sale of portfolio investments	3.54	3.53	0.01
Deferred proceeds received	0.03	-	0.03
Total investment disposals	**3.57**	**3.53**	**0.04**

The sale of Selima Holding Company Ltd and Harvey Jones Holdings Limited account for £1.56 million of the proceeds contributing a combined profit on cost of £0.81 million. The quoted portfolio delivered proceeds of £0.64 million with a profit on cost of £0.47 million.

Further analysis of all investments sold in the year can be found in note 7 to the financial statements on page 64 of the annual report.

Portfolio Composition

As at 31 December 2017 the portfolio had a value of £40.42 million which comprised £38.14 million in unquoted investments (94 per cent) and £2.28 million in quoted investments (6 per cent). An analysis of the movements in the year is shown on page 61 of the annual report.

The portfolio remains well diversified, with 24 of 38 investments having a value greater than £0.5 million, compared to 26 a year earlier, with the single largest investment representing 5.6 per cent of the net asset value.

The charts on page 13 of the annual report show the composition of the portfolio as at 31 December 2017 by industry sector, age of investment, investment instrument and the valuation compared to cost. This demonstrates representation across a wide range of industry sectors.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out in note 1 on pages 54 and 55 of the annual report, which takes account of current industry guidelines for the valuation of venture capital portfolios. Adjustments to fair value are made where an investment is significantly under-performing. As at 31 December 2017 the value of investments falling into each valuation category is shown in Table D. Now that the focus of new investments is on younger businesses that are investing for growth a higher proportion of valuations are based on a multiple of sales. This is likely to increase as the more mature companies in the portfolio are divested.

Table D **Valuation Policy**	**Valuation £million**	**% of portfolio by value**
Earnings multiple	24.19	60
Sales multiple	6.96	17
Cost, reviewed for change in fair value	5.37	13
Price of recent investment, reviewed for change in fair value	1.62	4
Quoted investments at bid price	2.28	6
Total	**40.42**	**100**

Budget Highlights and Patient Capital Review

It was pleasing that the Government reaffirmed its commitment to the Venture Capital Trust Schemes as one of the tools to support investment in the UK's small businesses which remain an engine of future growth and innovation. The changes announced seek to focus investment on earlier stage higher risk businesses and away from any capital preservation/asset-backed investments and also to achieve higher levels of investment in qualifying companies.

There are two new qualifying investment tests; the first is that for the Company as a whole 80 per cent of its investments will have to be held in Qualifying Investments as opposed to the current test of 70 per cent; for the Company this comes into force from 1 January 2020. The second test applies to financial years commencing on or after 6 April 2019 where 30 per cent of any funds raised have to be invested in Qualifying Investments within 12 months. This will apply for the year ending 31 December 2020. It is not believed that either of these changes will significantly impact the Company.

There are also proposed changes to the investment instruments that VCTs can use. In particular the use of loan structures will have conditions, these include that loans will have to be unsecured and be subject to a principles-based test with what is described as a safe harbour restricting the return on debt instruments to no more than 10 per cent on average over a five year period. Whilst this will have some limited impact on the Company, the majority of investments made subsequent to November 2015 have not included significant levels of loan stock.

The Government published the results of its consultation known as the Patient Capital Review at the same time as the November 2017 Budget.

Full details can be found at

www.gov.uk/government/uploads/system/uploads/attachment_data/file/661398/Patient_Capital_Review_Consultation_response_web.pdf

Summary and Outlook

In addition to the recent investment in Ncam Technologies Limited HMRC has now granted advance assurance in respect of a number of other investments. There is a good pipeline of enquiries following these. We continue to lobby HMRC and HM Treasury to improve the speed of advance assurances. We continue to pro-actively manage the portfolio seeking to add to, enhance and support the management teams that operate the businesses in which the Company is investing as well as setting agendas for realisations, re-investment and further fundraisings. As the portfolio realises and matures the nature of the underlying investments is likely to change with a greater proportion of equity instruments into younger businesses.

David Hall
YFM Private Equity Limited

Investment Portfolio Summary at 31 December 2017

Name of company	Date of initial investment	Location	Industry Sector	Current cost £000	Valuation at 31 December 2017 £000	Proceeds to date £000	Realised & unrealised value to date* £000
Unquoted portfolio							
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	May-14	Alloa	Business Services	1,956	3,307	-	3,307
ACC Aviation (via NewAcc (2014) Limited)	Nov-14	Reigate	Business Services	760	3,119	618	3,737
Mangar Health Limited	Jan-14	Powys	Healthcare	1,640	2,641	-	2,641
KeTech Enterprises Limited	Nov-15	Nottingham	Software, IT & Telecommunications	2,000	2,336	-	2,336
Matillion Limited	Nov-16	Knutsford	Software, IT & Telecommunications	1,400	2,222	-	2,222
GTK (Holdco) Limited	Oct-13	Basingstoke	Manufacturing & Industrial	295	1,950	1,055	3,005
Springboard Research Holdings Limited	Oct-14	Milton Keynes	Business Services	1,765	1,930	-	1,930
Gill Marine Holdings Limited	Sep-13	Nottingham	Retail & Brands	1,870	1,922	-	1,922
Business Collaborator Limited	Nov-14	Reading	Software, IT & Telecommunications	1,340	1,802	-	1,802
Leengate Holdings Limited	Dec-13	Derbyshire	Manufacturing & Industrial	934	1,522	-	1,522
Deep-Secure Ltd	Dec-09	Malvern	Software, IT & Telecommunications	500	1,276	-	1,276
Friska Limited	Jul-17	Bristol	Retail & Brands	1,200	1,200	-	1,200
DisplayPlan Holdings Limited	Jan-12	Baldock	Business Services	70	1,109	820	1,929
Sipsynergy (via Hosted Network Services Limited)	Jun-16	Ware	Software, IT & Telecommunications	1,309	1,074	-	1,074
Wakefield Acoustics (via Malvar Engineering Limited)	Dec-14	Heckmondwike	Manufacturing & Industrial	720	1,058	41	1,099
Traveltek Group Holdings Limited	Oct-16	East Kilbride	Software, IT & Telecommunications	980	1,001	-	1,001
Macro Art Holdings Limited	Jun-14	Cambridgeshire	Business Services	523	912	316	1,228
Biz2Mobile Limited	Oct-16	Oxfordshire	Software, IT & Telecommunications	1,000	863	-	863
Immunobiology Limited	Jun-03	Cambridge	Healthcare	2,482	806	-	806
Seven Technologies Holdings Limited	Apr-12	Belfast	Software, IT & Telecommunications	1,238	619	762	1,381
e2E Engineering Limited	Sep-17	Welwyn Garden City	Software, IT & Telecommunications	600	600	-	600
TeraView Limited	Dec-11	Cambridge	Software, IT & Telecommunications	377	557	-	557
Bagel Nash Group Limited	Jul-11	Leeds	Retail & Brands / Manufacturing & Ind Services	630	507	200	707
Other investments £0.5 million and below				4,526	3,808	409	4,217
Total unquoted investments				**30,115**	**38,141**	**4,221**	**42,362**
Quoted portfolio							
Iomart Group plc	May-11	Glasgow	Software, IT & Telecommunications	119	529	209	738
Other investments £0.5 million and below				1,129	1,753	1,466	3,219
Total quoted investments				**1,248**	**2,282**	**1,675**	**3,957**
				31,363	**40,423**	**5,896**	**46,319**
Full disposals to date				22,534	-	28,258	28,258
Total investment portfolio				**53,897**	**40,423**	**34,154**	**74,577**

* represents proceeds received to date plus the unrealised valuation at 31 December 2017.

Summary of Investment Portfolio Movement since 31 December 2016

Name of Company	Investment valuation at 31 December 2016	Disposal proceeds	Additions including capitalised interest and dividends	Valuation gains including profits / (losses) on disposal	Investment valuation at 31 December 2017
	£000	£000	£000	£000	£000
Unquoted portfolio					
Intelligent Office UK (IO Outsourcing Limited t/a Intelligent Office)	2,951	-	-	356	3,307
ACC Aviation (via Newacc (2014) Limited	3,480	(618)	-	257	3,119
Mangar Health Limited	2,486	-	-	155	2,641
KeTech Enterprises Limited	2,000	-	-	336	2,336
Matillion Limited	1,400	-	-	822	2,222
GTK (Holdco) Limited	1,675	(446)	-	721	1,950
Springboard Research Holdings Limited	1,706	-	59	165	1,930
Gill Marine Holdings Limited	1,690	-	-	232	1,922
Business Collaborator Limited	1,743	-	-	59	1,802
Leengate Holdings Limited	1,408	-	-	114	1,522
Deep-Secure Ltd	625	-	-	651	1,276
Friska Limited	-	-	1,200	-	1,200
Displayplan Holdings Limited	2,015	-	-	(906)	1,109
Sipsynergy (via Hosted Network Services Ltd)	900	-	409	(235)	1,074
Wakefield Acoustics (via Malvar Engineering Limited)	883	-	-	175	1,058
Traveltek Group Holdings Limited	980	-	-	21	1,001
Macro Art Holdings Limited	959	(104)	-	57	912
Biz2Mobile Limited	1,000	-	-	(137)	863
Immunobiology Limited	1,486	-	100	(780)	806
Seven Technologies Holdings Limited	619	-	-	-	619
e2E Engineering Limited	-	-	600	-	600
TeraView Limited	555	-	2	-	557
Bagel Nash Group Limited	548	-	-	(41)	507
The Heritage Window Company Holdco Limited	954	-	-	(617)	337
Selima Holding Company Ltd	586	(996)	-	410	-
Harvey Jones Holdings Limited	622	(559)	-	(63)	-
Other investments £0.5 million and below	3,976	(180)	60	(385)	3,471
Total unquoted investments	**37,247**	**(2,903)**	**2,430**	**1,367**	**38,141**
Quoted portfolio					
Iomart Group plc	407	-	-	122	529
AB Dynamics plc	636	(409)	-	247	474
Other investments £0.75 million and below	1,029	(229)	-	479	1,279
Total quoted investments	**2,072**	**(638)**	**-**	**848**	**2,282**
Total	**39,319**	**(3,541)**	**2,430**	**2,215**	**40,423**

RISK FACTORS

The Board carries out a regular and robust review of the risk environment in which the Company operates. The principal risks and uncertainties identified by the Board and techniques used to mitigate these risks are set out in this section.

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 April 2016. Details of the Company's internal controls are contained in the Corporate Governance Internal Control section on pages 38 and 39 of the annual report and further information on exposure to risks including those associated with financial instruments is given in note 17a of the annual report.

Loss of Approval as a VCT

Risk - The Company must comply with Chapter 3 Part 6 of the Income Tax Act 2007 which allows it to be exempted from corporation tax on capital 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.

Mitigation - One of the Key Performance Indicators monitored by the Company is the compliance with legislative tests. Details of how the Company manages these requirements can be found under the heading "Compliance with VCT Legislative Tests" on page 12 of the annual report.

Economic

Risk - Events such as recession and interest rate fluctuations could affect investee companies' performance and valuations.

Mitigation - As well as the response to 'Investment and Strategic' risk below the Company has a clear investment policy (summarised on page 8 of the annual report) and a diversified portfolio operating in a range of sectors. The Investment Adviser actively monitors investee performance which provides quality information for monthly reviews of the portfolio.

Investment and Strategic

Risk - Inappropriate strategy, poor asset allocation or consistently weak stock allocation may lead to under performance and poor returns to shareholders. The quality of enquiries, investments, investee company management teams and monitoring, and the risk of not identifying investee under performance might also lead to under performance and poor returns to shareholders.

Mitigation **-** The Board reviews strategy annually. At each of the Board meetings the directors review the appropriateness of the Company's objectives and stated strategy in response to changes in the operating environment and peer group activity. The Investment Adviser carries out due diligence on potential investee companies and their management teams and utilises external reports where appropriate to assess the viability of investee businesses before investing. Wherever possible a non-executive director will be appointed to the board of the investee on behalf of the Company.

Regulatory

Risk - The Company is required to comply with the Companies Act 2006, the rules of the UK Listing Authority, the Prospectus Rules made by the Financial Conduct Authority and International Financial Reporting Standards as adopted by the European Union and is subject to the EU's Alternative Investment Fund Manager's Directive. Breach of any of these might lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

Mitigation - The Investment Adviser and the Company Secretary have procedures in place to ensure recurring Listing Rules requirements are met and actively consult with brokers, solicitors and external compliance advisers as appropriate. The key controls around regulatory compliance are explained on pages 38 and 39 of the annual report.

Reputational

Risk - Inadequate or failed controls might result in breaches of regulations or loss of shareholder trust.

Mitigation - The Board is comprised of directors with suitable experience and qualifications who report annually to the shareholders on their independence. The Investment Adviser is well-respected with a proven track record and has a formal recruitment process to employ experienced investment staff. Allocation rules relating to co-investments with other funds managed/advised by the Investment Adviser, have been agreed between the Investment Adviser and the Company. Advice is sought from external advisors where required. Both the Company and the Investment Adviser maintain appropriate insurances.

Operational

Risk - Failure of the Investment Adviser's and administrator's accounting systems or disruption to its business might lead to an inability to provide accurate reporting and monitoring.

Mitigation - The Investment Adviser has a documented business continuity plan, which provides for back-up services in the event of a system breakdown.

Financial

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

Mitigation - The key controls around financial reporting are described on pages 38 and 39 of the annual report.

Market/Liquidity
Risk – Lack of liquidity in both the venture capital and public markets. Investment in unquoted and AIM quoted 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. The fact that a share is traded on AIM or on the main market 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 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.

Mitigation - Overall liquidity risks are monitored on an ongoing basis by the Investment Adviser and on a quarterly basis by the Board.

OTHER MATTERS

Environment

The Board recognises the requirement under Section 414C of the Companies Act 2006 to detail information about environmental matters (including the impact of the Company's business on the environment), employee, human rights, social and community issues, including information about any policies it has in relation to these matters and effectiveness of these policies.

The Company seeks to ensure that its business is conducted in a manner that is responsible to the environment, and has introduced an electronic communications policy. This policy has led to a significant increase in the number of such communications, with a commensurate reduction in the distribution of hard copy documents. The management and administration of the Company is undertaken by the Investment Adviser. YFM Private Equity Limited recognises the importance of its environmental responsibilities, monitors its impact on the environment and implements policies to reduce any damage that might be caused by its activities. Initiatives of the Investment Adviser designed to minimise its and the Company's impact on the environment include recycling and reducing energy consumption.

Given the size and nature of the Company's activities and the fact that it has no employees, the Board considers there is limited scope to develop and implement social and community policies.

Anti-Bribery and Corruption Policy

The Company has a zero tolerance approach to bribery. The following is a summary of its policy:

- it is the Company's policy to conduct all of its business in an honest and ethical manner. The Company is committed to acting professionally, fairly and with integrity in all its business dealings and relationships;
- the directors of the Company, the Investment Adviser and any other service providers must not promise, offer, give, request, agree to receive or accept financial or other advantage in return for favourable treatment, to influence a business outcome or gain any business advantage on behalf of the Company or encourage others to do so; and
- the Company has communicated its anti-bribery policy to the Investment Adviser and its other service providers.

The Company had no employees during the year. The Board is composed of three male non-executive directors. For a review of the policies used when appointing directors to the Board of the Company please refer to the Directors' Remuneration Report on pages 40 to 42 of the annual report.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare a strategic report, directors' report and directors' remuneration report which comply with the requirements of the Companies Act 2006.

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

Website Publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website at www.bscfunds.com in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' Responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with IFRSs as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- the annual report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

Having taken advice from the Audit Committee, the Board considers the annual report and accounts, taken as a whole, are fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The names and functions of all the directors are stated on page 30 of the annual report.

This statement was approved by the Board and signed on its behalf on 16 March 2018.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** Revenue £000	**2017** Capital £000	**2017** Total £000	2016 Revenue £000	2016 Capital £000	2016 Total £000
Gains on investments held at fair value	7	**-**	**2,209**	**2,209**	-	704	704
Income	2	**1,413**	**-**	**1,413**	1,937	-	1,937
Gain on disposal of investments	7	**-**	**40**	**40**	-	339	339
Total income		**1,413**	**2,249**	**3,662**	1,937	1,043	2,980
Administrative expenses:							
Investment Adviser's fee		**(289)**	**(866)**	**(1,155)**	(280)	(839)	(1,119)
Other expenses		**(438)**	**-**	**(438)**	(449)	-	(449)
	3	**(727)**	**(866)**	**(1,593)**	(729)	(839)	(1,568)
Profit before taxation		**686**	**1,383**	**2,069**	1,208	204	1,412
Taxation	4	**(73)**	**73**	**-**	(116)	116	-
Profit for the year		**613**	**1,456**	**2,069**	1,092	320	1,412
Total comprehensive income for the year		**613**	**1,456**	**2,069**	1,092	320	1,412
Basic and diluted earnings per ordinary share	6	**0.61p**	**1.46p**	**2.07p**	1.17p	0.34p	1.51p

The Total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The supplementary Revenue and Capital columns are prepared under the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (issued in November 2014 and updated in January 2017 with consequential amendments – "SORP") published by the AIC.

BALANCE SHEET

At 31 December 2017

	Notes	2017 £000	2016 £000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	7	**40,423**	39,319
Trade and other receivables		**825**	837
		41,248	40,156
Current assets			
Trade and other receivables		**392**	391
Cash on fixed term deposit		**1,988**	3,037
Cash and cash equivalents		**15,681**	12,826
		18,061	16,254
Liabilities			
Current liabilities			
Trade and other payables		**(253)**	(301)
Net current assets		**17,808**	15,953
Net assets		**59,056**	56,109
Shareholders' equity			
Share capital		**10,450**	9,652
Share premium account		**257**	16,902
Capital redemption reserve		**88**	88
Other reserve		**2**	2
Merger reserve		**5,525**	5,525
Capital reserve		**32,198**	15,621
Investment holding gains and losses reserve		**9,090**	7,077
Revenue reserve		**1,446**	1,242
Total shareholders' equity		**59,056**	56,109
Net asset value per ordinary share	8	**58.8p**	59.7p

The financial statements were approved and authorised for issue by the Board of directors and were signed on its behalf on 16 March 2018.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Share premium account	Other reserves[1]	Capital reserve	Investment holding gains and losses reserve	Revenue reserve	Total equity
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2015	**8,939**	**13,337**	**5,615**	**20,781**	**5,127**	**1,051**	**54,850**
Revenue return for the year	-	-	-	-	-	*1,208*	*1,208*
Capital expenses	-	-	-	*(839)*	-	-	*(839)*
Investment holding gain on investments held at fair value	-	-	-	-	*704*	-	*704*
Realisation of investments in the year	-	-	-	*339*	-	-	*339*
Taxation	-	-	-	*116*	-	*(116)*	-
Total comprehensive (expense) income for the year	-	-	-	(384)	704	1,092	1,412
Issue of share capital	*568*	*3,030*	-	-	-	-	*3,598*
Issue costs [2]	-	*(146)*	-	-	-	-	*(146)*
Purchase of own shares	-	-	-	*(240)*	-	-	*(240)*
Issue of shares – DRIS	*145*	*681*	-	-	-	-	*826*
Dividends	-	-	-	*(3,321)*	-	*(870)*	*(4,191)*
Total transactions with owners	713	3,565	-	(3,561)	-	(870)	(153)
Transfer between reserves	-	-	-	(1,933)	1,964	(31)	-
Realisation of prior year investment holding gains	-	-	-	718	(718)	-	-
Balance at 31 December 2016	**9,652**	**16,902**	**5,615**	**15,621**	**7,077**	**1,242**	**56,109**
Revenue return for the year	-	-	-	-	-	*686*	*686*
Capital expenses	-	-	-	*(866)*	-	-	*(866)*
Investment holding gain on investments held at fair value	-	-	-	-	*2,209*	-	*2,209*
Realisation of investments in the year	-	-	-	*40*	-	-	*40*
Taxation	-	-	-	*73*	-	*(73)*	-
Total comprehensive (expense) income for the year	-	-	-	(753)	2,209	613	2,069
Issue of share capital	*679*	*3,571*	-	-	-	-	*4,250*
Issue costs [2]	-	*(176)*	-	*(10)*	-	-	*(186)*
Cancellation of share premium account, net of costs	-	*(20,579)*	-	*20,569*	-	-	*(10)*
Purchase of own shares	-	-	-	*(814)*	-	-	*(814)*
Issue of shares – DRIS	*119*	*539*	-	-	-	-	*658*
Dividends	-	-	-	*(2,611)*	-	*(409)*	*(3,020)*
Total transactions with owners	798	(16,645)	-	17,134	-	(409)	878
Realisation of prior year investment holding gains	-	-	-	196	(196)	-	-
Balance at 31 December 2017	**10,450**	**257**	**5,615**	**32,198**	**9,090**	**1,446**	**59,056**

Reserves available for distribution

Under the Companies Act 2006 the capital reserve and the revenue reserve are distributable reserves. The table below shows amounts that are available for distribution.

	Capital reserve	Revenue reserve	Total
	£000	£000	£000
Distributable reserves as above	**32,198**	**1,446**	**33,644**
Less : Interest and dividends not yet distributable	-	(1,181)	(1,181)
: Cancelled share premium not yet distributable	(21,922)	-	(21,922)
Reserves available for distribution[3]	**10,276**	**265**	**10,541**

1. Other reserves include the capital redemption reserve, the merger reserve and the other reserve, which are non-distributable. The other reserve was created upon the exercise of warrants, the capital redemption reserve was created for the purchase and cancellation of own shares, and the merger reserve was created on the merger with British Smaller Technologies Company VCT plc.
2. Issue costs include both fundraising costs and costs incurred from the Company's DRIS.
3. Subject to filing these financial statements at Companies House, see table below.

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

The capital reserve and revenue reserve are both distributable reserves. The reserves total £33,644,000 representing an increase of £16,781,000 during the year. The directors also take into account the level of the investment holding gains and losses reserve and the future requirements of the Company when determining the level of dividend payments.

Of the potentially distributable reserves of £33,644,000 shown above, £1,181,000 relates to interest and dividends not yet distributable and £21,922,000 of cancelled share premium which becomes distributable from 1 January 2018 onwards (see below).

The total amount held in the share premium account at 30 June 2017 (£20,579,000) was cancelled on 21 September 2017.

This reduction enables the Company to create distributable reserves which may be used for the purposes of buy-backs of the Company's shares, thereby improving the liquidity of its shares and minimising their discount to net asset value, and for other corporate purposes capable of being undertaken by the Company from time to time.

Total share premium cancelled including £1,343,000 previously cancelled will be available for distribution from the following dates.

	£000
1 January 2018	1,343
Date of filing these financial statements at Companies House	342
1 January 2019	12,995
1 January 2020	3,565
1 January 2021	3,677
Cancelled share premium not yet distributable	**21,922**

On filing these financial statements at Companies House the reserves available for distribution will be £12,226,000.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Net cash (outflow) inflow from operating activities		**(211)**	20
Cash flows from (used in) investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(2,371)**	(4,508)
Proceeds from sale of financial assets at fair value through profit or loss		**3,479**	2,874
Deferred consideration		**34**	183
Cash maturing from (placed on) fixed term deposit		**1,049**	(1,045)
Net cash inflow (outflow) from investing activities		**2,191**	(2,496)
Cash flows from (used in) financing activities			
Issue of ordinary shares		**4,230**	3,598
Costs of ordinary share issues*		**(166)**	(146)
Purchase of own ordinary shares		**(814)**	(240)
Share premium cancellation costs		**(10)**	-
Dividends paid	5	**(2,365)**	(3,354)
Net cash inflow (outflow) from financing activities		**875**	(142)
Net increase (decrease) in cash and cash equivalents		**2,855**	(2,618)
Cash and cash equivalents at the beginning of the year		**12,826**	15,444
Cash and cash equivalents at the end of the year		**15,681**	12,826

*Issue costs include both fundraising costs and expenses incurred from the Company's DRIS.

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

	2017 £000	2016 £000
Profit before taxation	**2,069**	1,412
(Decrease) increase in trade and other payables	**(45)**	6
Decrease (increase) in trade and other receivables	**73**	(275)
Gain on disposal of investments	**(40)**	(339)
Gains on investments held at fair value	**(2,209)**	(704)
Capitalised interest and dividends	**(59)**	(80)
Net cash (outflow) inflow from operating activities	**(211)**	20

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

Basis of Preparation

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

The financial statements have been prepared under the historical cost basis 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 (issued in November 2014 and updated in January 2017 with consequential amendments – "SORP") to the extent that they do not conflict with IFRSs as adopted by the European Union.

The financial statements are prepared in accordance with IFRSs and interpretations in force at the reporting date. New standards coming into force during the year have not had a material impact on these financial statements.

Standards, amendments to standards and interpretations have been issued which will be effective for future reporting periods but have not been adopted early in these financial statements. These include IFRS 9, IFRS 15, and amendments to IFRS 2 and IFRS 10. The Company has carried out an assessment and considers that these standards, amendments and interpretations, issued but not yet effective, will not affect the Company's accounting policies, results or net assets. In particular the Company will be able to continue to quantify its investments at fair value through profit and loss under IFRS 9, and will consequently not need to apply the impairment model.

The financial statements are presented in sterling and all values are rounded to the nearest thousand (£000), except where stated.

2. Income

	2017	2016
	£000	£000
Dividends from unquoted companies	**290**	611
Dividends from AIM quoted companies	**17**	17
Interest on loans to unquoted companies	**989**	1,140
Income from investments held at fair value through profit or loss	**1,296**	1,768
Interest on bank deposits	**117**	169
	1,413	1,937

The above is stated net of £349,000 (2016: £133,000) of income in relation to loan interest and preference dividends, which has not been recognised.

3. Administrative Expenses

	2017	2016
	£000	£000
Investment Adviser's fee	**1,155**	1,119
Administration fee	**63**	62
Total payable to YFM Private Equity Limited	**1,218**	1,181
Other expenses:		
Trail commission	**120**	133
Directors’ remuneration	**82**	81
General expenses	**57**	52
Listing and registrar fees	**47**	46
Printing	**26**	34
Auditor's remuneration - audit fees (excluding irrecoverable VAT)	**25**	23
Irrecoverable VAT	**18**	18
	1,593	1,568
Ongoing charges figure	**2.48%**	2.51%

Directors’ remuneration comprises only short term benefits including social security contributions of £7,000 (2016: £7,000).

The directors are the Company’s only key management personnel.

No fees are payable to the auditor in respect of non-audit services supplied pursuant to legislation (2016: £nil).

YFM Private Equity Limited has acted as Investment Adviser and performed administrative and secretarial duties for the Company under an agreement dated 28 November 2000, superseded by an agreement dated 31 October 2005 and as varied by agreements dated 8 December 2010, 26 October 2011, 16 November 2012, 17 October 2014 and 7 August 2015 (the “IAA”). The agreement may be terminated by not less than twelve months’ notice given by either party at any time. Following the Financial Conduct Authority’s registration of the Company as a Small Registered Alternative Investment Fund Manager in 2014, the Company has retained responsibility for the custody of its investments.

The key features of the agreement are:

YFM Private Equity Limited receives an Investment Adviser fee, payable quarterly in advance, calculated at half-yearly intervals as at 30 June and 31 December. The fee is allocated between capital and revenue as described in note 1;

The annual advisory fee payable to the Investment Adviser is 2.50 per cent of net assets up to £16.0 million, 1.25 per cent of net assets in excess of £16.0 million and up to £26.667 million, and 2.00 per cent of net assets in excess of £26.667 million. Based on the Company’s net assets at 31 December 2017 of £59.056 million, this equates to 2.0 per cent of net assets, or £1,181,000 per annum;

YFM Private Equity Limited shall bear the annual operating costs of the Company (including the advisory fee set out above but excluding any payment of the performance incentive fee, details of which are set out below and excluding VAT and trail commissions) to the extent that those costs exceed 2.9 per cent of the net asset value of the Company; and

Under the IAA YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue, and totalled £63,000 for the year ended 31 December 2017 (2016: £62,000).

When the Company makes investments into its unquoted portfolio the Investment Adviser charges that investee an advisory fee. With effect from 1 October 2013 if the average of relevant fees exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on investments over the Company’s financial year, this excess will be rebated to the Company. As at 31 December 2017, the Company was due a rebate from the Investment Adviser of £nil (2016: £nil).

Monitoring and directors’ fees the Investment Adviser receives from the investee companies are limited to a maximum of £40,000 (excluding VAT) per annum per company.

The total remuneration payable to YFM Private Equity Limited under the IAA in the year was £1,218,000 (2016: £1,181,000).

Under the IAA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2017 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors’ and monitoring fees amounted to £385,000 (2016: £412,000).

Under the Subscription Rights Agreement dated 23 November 2001 between the Company, YFM Private Equity Limited and Chord Capital Limited ("Chord" formerly Generics Asset Management Limited), as amended by an agreement between those parties dated 31 October 2005, YFM Private Equity Limited and Chord have a performance-related incentive, structured so as to entitle them to an amount (satisfied by the issue by the Company of ordinary shares) equivalent to 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the middle market price per ordinary share on the five dealing days prior to that day, exceeds 120 pence per ordinary share, multiplied by the number of ordinary shares issued and the ordinary shares under option (if any) (the "Hurdle"). Under the terms of the Subscription Rights Agreement, once the Hurdle has been exceeded it is reset at that value going forward, which becomes the new Hurdle. Any subsequent exercise of these rights will only occur once the new Hurdle has been exceeded. The subscription rights are exercisable in the ratio 95:5 between the Investment Adviser and Chord Capital Limited.

By a Deed of Assignment dated 19 December 2003 (together with a supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity Limited subscription right was assigned to YFM Private Equity Limited Carried Interest Trust (the "Trust"), an employee benefit trust formed for the benefit of certain employees of YFM Private Equity Limited and associated companies. Pursuant to a deed of variation dated 16 November 2012 between the Company, the trustees of the Trust and Chord, the Subscription Rights Agreement was varied so that the subscription rights will be exercisable in the ratio of 95:5 between the trustees of the Trust and Chord. Pursuant to a deed of variation dated 5 August 2014 the Subscription Rights Agreement was varied so that the recipient was changed from the Trust to YFM Private Equity Limited.

As at 31 December 2017 the total of cumulative cash dividends paid and mid-market price was 110.50 pence per ordinary share. No shares have been issued under this agreement.

Under the terms of the offer launched on 3 January 2017, YFM Private Equity Limited was entitled to 5.0 per cent of gross subscriptions from execution brokers and 3.0 per cent of gross subscriptions for applications through intermediaries offering financial advice or directly from applicants, less the cost of incentive shares and re-investment of intermediary commission. The net amount paid to YFM Private Equity Limited under this offer amounted to £148,597.

The Investment Adviser met all costs and expenses arising from this offer out of this fee, including any payment or re-investment of initial intermediary commissions.

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 41 of the annual report under the heading "Directors' Remuneration for the year ended 31 December 2017 (audited)".

4. Taxation

	2017			2016		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000
Profit before taxation	**686**	**1,383**	**2,069**	1,208	204	1,412
Profit before taxation multiplied by standard rate of corporation tax in UK of 19.25% (2016: 20%)	**132**	**266**	**398**	242	40	282
Effect of:						
UK dividends received	**(59)**	**-**	**(59)**	(126)	-	(126)
Non-taxable profits on investments	**-**	**(433)**	**(433)**	-	(209)	(209)
Excess advisory expenses	**-**	**94**	**94**	-	53	53
Tax charge (credit)	**73**	**(73)**	**-**	116	(116)	-

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

Deferred tax assets of £596,000 (2016: £514,000) calculated at 17% in respect of unrelieved management expenses (£3.51 million as at 31 December 2017 and £3.02 million as at 31 December 2016) 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 realisation of investments.

5. Dividends

Amounts recognised as distributions to equity holders in the period to 31 December:

	2017			2016		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
	£000	**£000**	**£000**	£000	£000	£000
Final dividend for the year ended 31 December 2016 of 1.5p (2015: 2.5p) per ordinary share	**177**	**1,334**	**1,511**	277	2,045	2,322
Interim dividend for the year ended 31 December 2017 of 1.5p (2016: 2.0p) per ordinary share	**232**	**1,277**	**1,509**	593	1,276	1,869
	409	**2,611**	**3,020**	870	3,321	4,191
Shares allotted under DRIS			**(658)**			(826)
Unclaimed dividends			**3**			(11)
Dividends paid in Statement of Cash Flows			**2,365**			**3,354**

The final year-end dividend of 1.5 pence per ordinary share in respect of the year to 31 December 2016 was paid on 12 May 2017 to shareholders on the register at 31 March 2017.

The interim dividend of 1.5 pence per ordinary share was paid on 29 September 2017 to shareholders on the register as at 1 September 2017.

A final dividend of 1.5 pence per ordinary share in respect of the year to 31 December 2017 is proposed. This dividend has not been recognised in the year ended 31 December 2017 as the obligation did not exist at the balance sheet date.

During the year the Company has received £nil (2016: £14,000) from the Registrars in respect of unclaimed dividends. The Company has made efforts to contact the relevant shareholders, with the result that £3,000 (2016: £3,000) has been paid to shareholders in the year. The unclaimed balance is held in a separate bank account until contact can be made with the shareholders affected.

6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to shareholders of £2,069,000 (2016: £1,412,000) and 99,881,803 (2016: 93,363,744) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted revenue earnings per ordinary share is based on the profit for the year attributable to shareholders of £613,000 (2016: £1,092,000) and 99,881,803 (2016: 93,363,744) ordinary shares being the weighted average number of ordinary shares in issue during the year.

The basic and diluted capital earnings per ordinary share is based on the capital profit for the year attributable to shareholders of £1,456,000 (2016: £320,000) and 99,881,803 (2016: 93,363,744) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 6,787,231 new ordinary shares from a top up offer, and 1,189,635 new ordinary shares in respect of its DRIS.

The Company has also repurchased 1,460,605 of its own shares in the year, and these shares are held in the capital reserve. The total of 4,006,351 treasury shares has been excluded in calculating the weighted average number of ordinary shares for the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per ordinary share are the same.

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 Subscription Rights Agreement as set out in note 3. No such shares have been issued or are currently expected to be issued because the conditions have not been met at the year end. Consequently, basic and diluted earnings per ordinary share are equivalent in both the year ended 31 December 2017 and 31 December 2016.

7. Financial Assets at Fair Value through Profit or Loss

Movements in investments at fair value through profit or loss during the year to 31 December 2017 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1	
	Unquoted Investments	Quoted Equity Investments	**Total Investments**
	£000	£000	**£000**
Opening cost	30,853	1,419	**32,272**
Opening investment holding gain	6,394	653	**7,047**
Opening fair value at 1 January 2017	**37,247**	**2,072**	**39,319**
Additions at cost	2,371	-	**2,371**
Capitalised interest and dividends	59	-	**59**
Disposal proceeds	(2,903)	(638)	**(3,541)**
Net (loss) profit on disposal*	(87)	93	**6**
Change in fair value	1,454	755	**2,209**
Closing fair value at 31 December 2017	**38,141**	**2,282**	**40,423**
Closing cost	30,115	1,248	**31,363**
Closing investment holding gain**	8,026	1,034	**9,060**
Closing fair value at 31 December 2017	**38,141**	**2,282**	**40,423**

*The net profit on disposal in the table above is £6,000 whereas that shown in the Statement of Comprehensive Income is £40,000. The difference comprises deferred proceeds of £34,000 in respect of assets which have been disposed of in prior years and are not included within the investment portfolio at 1 January 2017.

**Following the merger between the Company and British Smaller Technologies Company VCT plc a total of £975,000 of negative goodwill was recognised in the investment holding gains and losses reserve in respect of the investments acquired. The relevant amount per investment is realised at the point of disposal to the capital reserve. At 31 December 2017 a total of £30,000 (2016: £30,000) was held on investments yet to be realised in the investment holdings gains and losses reserve.

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company (2016: £nil).

8. Basic and Diluted Net Asset Value per Ordinary Share

The basic and diluted net asset value per ordinary share is calculated on attributable assets of £59,056,000 (2016: £56,109,000) and 100,490,575 (2016: 93,974,314) 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 2017.

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 Subscription Rights Agreement as set out in note 3. No such shares have been issued or are currently expected to be issued because the conditions have not been met at the year end. Consequently, basic and diluted net asset values per ordinary share are equivalent in both the year ended 31 December 2017 and 31 December 2016.

9. Total Return per Ordinary Share

The total return per ordinary share is calculated on cumulative dividends paid of 55.5 pence per ordinary share (2016: 52.5 pence per ordinary share) plus the net asset value as calculated per note 8.

10. Financial Commitments

There are no financial commitments at 31 December 2017.

11. Related Party Transactions

Mr R Last is chairman and non-executive director of Gamma Communications plc, in which he has a 0.06 per cent equity stake. During the year to 31 December 2017 he received remuneration of £76,500 from Gamma in respect of his services.

12. Events after the Balance Sheet Date

On 16 February 2018 the Company allotted a total of 7,366,700 ordinary shares pursuant to the offer detailed under “Fundraising” on page 6 of the annual report, raising net proceeds of approximately £4.3 million.

In March 2018 the Company made a new investment of £0.98 million into Ncam Technologies Limited and also made a follow-on investment of £0.38 million into Matillion Limited.

13. Annual Report and Accounts

Copies of the statutory accounts for the year ended 31 December 2017 will shortly be submitted to the National Storage Mechanism and will be available to the public for viewing online at www.hemscott.com/msn/do. They can also shortly be viewed on the Company's website at www.bscfunds.com. Hard copies of the statutory accounts for the year to 31 December 2017 will be distributed by post or electronically to shareholders and will thereafter be available to members of the public from the Company's registered office.

14. Directors

The directors of the Company are: Mr R Last, Mr P C Waller and Mr R M Pettigrew.

15. Annual General Meeting

The Annual General Meeting of the Company will be held at 12.00 noon on 9 May 2018 at 33 St James Square, London, SW1Y 4JS.

16. Final Dividend for the Year Ended 31 December 2017

Further to the announcement of its final results for the year ended 31 December 2017, the Company confirms that, subject to its approval by shareholders at the forthcoming Annual General Meeting to be held on 9 May 2018, the final dividend of 1.5 pence per ordinary share ("Final Dividend") will be paid on 11 May 2018 to those shareholders on the Company's register at the close of business on 3 April 2018. The ex-dividend date will be 29 March 2018.

17. Dividend Re-investment Scheme

The Company operates a dividend re-investment scheme ("DRIS"). The latest date for receipt of DRIS elections so as to participate in the DRIS in respect of the Final Dividend is the close of business on 26 April 2018.

18. Inside Information

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU No. 596/2014). Upon the publication of this announcement via Regulatory Information Service this inside information is now considered to be in the public domain.

For further information, please contact:

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