YFM Equity Partners

British Smaller Companies VCT2 plc

Annual Report

for the year ended
31 December 2014

Transforming small businesses

bscfunds.com

ABOUT US

British Smaller Companies VCT2 plc was formed in 2000 and invests in a combination of mature businesses operating in traditional industries and emerging businesses offering opportunities in the application and development of innovation.

A diverse existing portfolio of 35 active investments reduces the exposure to particular markets and individual companies. To date British Smaller Companies VCT2 plc has in total realised 33 investments generating total proceeds of £22.3 million. The current investment portfolio has an audited valuation of £28.2 million as at 31 December 2014.

ABOUT US

Investment Adviser

British Smaller Companies VCT2 plc (the "Company") is advised by YFM Private Equity Limited (the "Investment Adviser") which is a wholly owned subsidiary of YFM Equity Partners LLP and is authorised and regulated by the Financial Conduct Authority.

Investment Policy

The investment strategy of the Company is to create a portfolio that blends a mix of companies operating in traditional industries with those that offer opportunities in the development and application of innovation.

The Company invests in UK businesses across a broad range of sectors including Software, IT & Telecommunications, Business Services, Manufacturing & Industrial Services, Retail & Brands and Healthcare and these investments will primarily be in established unquoted companies (including those quoted on AIM and ISDX). Investments will be made with regard to the VCT regulations so as to maintain the VCT's venture capital trust status. Alongside an investment in equities the Company usually invests in preference shares and loan stock to enhance the security of the portfolio and to achieve a balance of income and capital growth.

Further details of the Company's investment policy can be found in the Strategic Report on page 9.

Dividend Policy

Your Board remains committed to achieving the objective of a consistent and, where possible, increasing dividend stream over time whilst seeking to preserve the capital value of the Company, but this depends upon the level of investment income and realisations that the Company is able to make or achieve in any one period and cannot be guaranteed.

The tax reliefs that are available for an investment in a VCT are of particular benefit for qualifying shareholders as there is no income tax payable on the dividend received, or need to declare them in a tax return. This means that qualifying shareholders in British Smaller Companies VCT2 plc who are higher and additional rate tax payers do not have to pay income tax on the dividends they receive from the Company.

Share Buy-Backs

Share buy-backs enable shareholders to obtain some liquidity in an otherwise illiquid market when there is a need to dispose of shares. This policy is kept under active review to ensure that any decisions taken are in the interests of shareholders as a whole. The current rate of discount at which ordinary shares will be bought back is targeted to be no more than 10 per cent of the latest reported net asset value.

Dividend Re-Investment Scheme ("DRIS")

The Company operates a DRIS which gives shareholders the opportunity to re-invest any cash dividends. Currently dividends are re-invested at a 5 per cent discount to the latest reported net asset value as adjusted for the relevant dividend in question if this has not already been recognised. Any dividends that are re-invested by qualifying shareholders are eligible for income tax relief at 30 per cent of the amount invested subject to an annual investment limit of £200,000. The Finance Bill 2014 confirmed that shares acquired at any time under dividend re-investment schemes will not impact tax relief on sales of or subscriptions for VCT shares, unless in the latter case it results in a breach of the £200,000 investment limit.

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FINANCIAL HIGHLIGHTS

Total Return Increases by 1.7 Per Cent to 106.4 Pence per Ordinary Share

Since 31 December 2013 your Company's total return has increased by 1.8 pence, from 104.6 pence per ordinary share to 106.4 pence per ordinary share, which includes cumulative dividends paid of 43.5 pence per ordinary share.

New Investments since 1 January 2014

Your Company has made 11 new investments totalling £12.46 million since 1 January 2014 across a range of sectors including Business Services, Healthcare, Manufacturing & Industrial Services and Software, IT & Telecommunications.

Investment Growth

The underlying growth in the investment portfolio was £0.98 million. This included £0.11 million of unrealised value growth and £0.87 million of gain over the opening value from disposals, including £0.31 million of deferred proceeds. The realised profit over original cost is £1.71 million.

Dividends for the Year

Total dividends paid during the year ended 31 December 2014 were 4.5 pence per ordinary share, which equates to 6.9 per cent of the opening 31 December 2013 net asset value per share. This comprises a final dividend relating to the year to 31 December 2013 of 2.5 pence and an interim dividend for the year to 31 December 2014 of 2.0 pence per ordinary share.

Waterfall Realisation

Since your Company's original investment into Waterfall Services Limited to support the MBO of Caterplus in 2007, Waterfall has achieved strong growth, delivering a fivefold increase in turnover and increasing the number of employees from 400 to over 3,000. Total proceeds of £1.33 million on a £0.25 million investment generated a 5.3x return for your Company.

FINANCIAL CALENDAR

Results Announced	26 March 2015
Ex-Dividend Date	7 May 2015
Record Date	8 May 2015
Annual General Meeting	15 May 2015
DRIS Election Date	22 May 2015
Final Dividend Paid	8 June 2015

FIVE YEAR SUMMARY

	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011	Year ended 31 December 2010
Income	**£1,272,000**	£689,000	£594,000	£349,000	£321,000
Profit (loss) before and after taxation	**£1,157,000**	£2,131,000	£852,000	£1,040,000	(£103,000)
Profit (loss) per ordinary share	**2.00p**	4.73p	2.39p	4.75p	(0.59)p
Cumulative dividend paid per ordinary share	**43.5p**	39.0p	34.5p	30.0p	26.0p
Net assets attributed to ordinary shares	**£39,333,000**	£30,458,000	£27,152,000	£15,982,000	£11,829,000
Total return per ordinary share	**106.4p**	104.6p	100.0p	98.5p	94.4p

STRATEGIC REPORT

The Company is pleased to present its Strategic Report for the year ended 31 December 2014. The purpose of this report is to inform shareholders and help them to assess how the directors have performed in their duty to promote the success of the Company. This Report has been prepared by the directors in accordance with section 414 of the Companies Act 2006.

CHAIRMAN'S STATEMENT

Improved economic conditions in 2014 were the background for a very active period for the Company resulting in a positive evolution of the shape of the portfolio. The share offer, which closed on 29 May 2014, raised new funds of £10.2 million. A total of £13.6 million was invested during the year to 31 December 2014 of which £8.1 million was invested in the second half of the year. The eleven new investments made in the year continue our strategy of sector and geographical diversity, with businesses in Scotland, Wales, Cambridgeshire, the Midlands, Yorkshire and London all receiving investment. As at 31 December 2014 the portfolio value was £28.2 million (72 per cent of net assets) which compares to £16.3 million (53 per cent of net assets) a year earlier.

One of the objectives of the Company in building the portfolio is to increase the level of income it receives. I am pleased to report that the majority of new investments include a significant proportion of yielding loans and preference shares. As a result the portfolio income has increased to £1.27 million in the year to 31 December 2014 compared to £0.69 million in 2013. With the benefit of a full year's income from these investments this trend is expected to continue into 2015. The 2014 income exceeded the administrative expenses of the Company by £0.18 million compared to a shortfall of £0.21 million in 2013. Realised gains of £0.87 million increased the surplus to £1.05 million with unrealised gains of £0.11 million taking the aggregate profit for the year to £1.16 million.

Following the strong investment rate in 2014, which is expected to continue into 2015, the Board launched a further share offer alongside British Smaller Companies VCT plc in October 2014 which was fully subscribed by 24 March 2015. These additional funds will ensure that the Company remains well positioned to take advantage of new investment opportunities and to support the portfolio in the coming year. Additionally the increased scale and diversity of the Company will help to underpin consistent returns and improve efficiencies.

Financial Results

In the year to 31 December 2014 the Company's total return increased by 1.8 pence per ordinary share to 106.4 pence per ordinary share, driven mainly by underlying value growth in the investment portfolio. This equates to an increase of 2.7 per cent on the opening net asset value at 31 December 2013.

During the year the Company has paid total dividends of 4.5 pence per ordinary share, bringing the total cumulative dividends paid since inception to 43.5 pence per ordinary share. The net asset value at 31 December 2014 is 62.9 pence per share as summarised in the table below:

Net Asset Value

	Pence per ordinary share		£000	
NAV at 31 December 2013		65.6		30,458
Net underlying increase in portfolio	1.6		981	
Net income	0.3		176	
Issue/buy-back of new shares	(0.1)		10,512	
	1.8		11,669	
Dividends paid	(4.5)		(2,794)	
		(2.7)		8,875
NAV at 31 December 2014		**62.9**		**39,333**

The chart on page 11 of these financial statements shows in greater detail the movement in total return, net asset value and dividends paid over time.

The investments held at 31 December 2013, amounting to £17.15 million, have over the year increased by £0.98 million to £18.13 million at 31 December 2014. This return comprises a gain over the opening value from the realisation of investments of £0.87 million, and a gain on the revaluation of portfolios of £0.11 million. Strong value gains were seen across many portfolio businesses, as a result of improved trading results and delivery of value growth strategies; these were however partially offset by a decline in the value of two businesses, Seven Technologies Holdings Limited and Deep-Secure Limited, due primarily to a freeze in defence sector spending.

Shareholder Relations

Dividends

Your Board remains committed to achieving the objective of a consistent and, where possible, increasing dividend stream over time whilst seeking to maintain capital value. Dividends paid in the year comprise a final dividend of 2.5 pence per ordinary share in respect of the year ended 31 December 2013, and an interim dividend of 2.0 pence per ordinary share in respect of the financial year just ended, totalling 4.5 pence per ordinary share. This represents 6.9 per cent of the opening net asset value per ordinary share and brings the cumulative dividends paid to 43.5 pence per ordinary share.

The Board is pleased to propose a final dividend of 2.5 pence per ordinary share for the year ended 31 December 2014. This final dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and if approved will then be paid on 8 June 2015 to shareholders on the register at 8 May 2015. The ex-dividend date is 7 May 2015.

15 May 2015

The Annual General Meeting of the Company will be held at 12.00 noon on 15 May 2015 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 74.

DRIS

The Company operates a DRIS, which gives shareholders the opportunity to re-invest any cash dividends as described on page 2. The DRIS is open to all shareholders, including those who invested under the recent share offers. For the financial year ending 31 December 2014 dividends totalling £0.4 million were invested in the Company by way of the DRIS.

Fundraising

In the light of the continued strong demand for investment from UK businesses your Company launched a prospectus offer on 20 October 2014 alongside British Smaller Companies VCT plc, to increase its investment capacity. The Company and British Smaller Companies VCT plc received an excellent response and the offers were fully subscribed on 24 March 2015 raising £40 million in aggregate.

Shareholder Communications

Your Board remains committed to enhancing shareholder communications and holds shareholder workshops where investors are invited to meet members of the Board, representatives from the Investment Adviser and the CEOs of one or more of our investee companies. Our 20th shareholder workshop was held at Freemasons' Hall, London on 4 February 2015 and achieved the highest ever attendance with over 200 shareholders attending. Presentations at the workshop were made by Andrew Barker MD of Mangar International, Rachel McCorry CEO of IO Outsourcing, Michael Green Commercial Director and Matt Guise Sales Director of Macro Art. After lunch, David Hall presented on behalf of the Investment Adviser, followed by a Question and Answer session hosted by David Hall, David Bell and Paul Cannings, all of the Investment Adviser.

Regulatory

On 21 July 2014 the Financial Conduct Authority approved the Company's application to become a Small Registered UK Alternative Investment Fund Manager as defined under the new Alternative Investment Fund Manager's Directive following the implementation of the EU's directive on self-managed investment funds. Following this the Company has retained responsibility for the custody of its investments. YFM Private Equity Limited has continued to provide advisory and administrative services to the Company. I am pleased to report that The City Partnership (UK) Limited has been appointed as Company Secretary to the Company with effect from 1 December 2014.

The Company has complied with the new reporting regulations throughout this annual report. The Board hopes these changes will help shareholders gain a greater understanding of the Company's performance and strategy.

Changes to Investment Advisory Agreement

Your Board has agreed with YFM Private Equity Limited a number of changes to the Investment Advisory agreement ("the IAA"). In particular it has added clauses that:

(i) With effect from 1 October 2013 limit total deal fees paid by investee companies to the Investment Adviser at the point of investment to 3.0 per cent of the total sum invested in new unquoted investments during the financial period, and 2.0 per cent of the total sum invested in follow-on unquoted investments during the financial period. Any excess of total fees over these limits will be rebated to the Company; and

(ii) Limit the annual monitoring and directors fees paid by investee companies to the Investment Adviser to a maximum of £40,000 per annum per unquoted investment.

Further details of the IAA are set out on page 58.

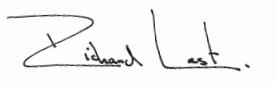
Subsequent Events

Since the end of the reporting period, the Company has completed one additional investment for £0.4 million. At the date of this report the Company has approval for four further investments totalling £3.4 million.

Outlook

During the year there have been some indicators of improved economic conditions which have continued into the early part of 2015. Consequently 2014 has been a year of strong new investment levels and this momentum has continued into 2015, although we continue to take a cautious approach and look for businesses with resilient growth strategies. Funds raised under the recent prospectus offer will ensure your Company can continue to take advantage of these opportunities.

Good progress continues to be made across the portfolio to position businesses to grow and realise shareholder value.



Richard Last
Chairman
26 March 2015

OBJECTIVES AND KEY POLICIES

The Company's objective is to provide investors with an attractive long-term tax free dividend yield whilst seeking to maintain the capital value of their investment and the Company's status as a venture capital trust.

Investment Policy

The investment strategy of the Company is to create a portfolio with a mix of companies operating in traditional industries and those that offer opportunities in the development and application of innovation.

The legislation governing VCTs requires that at least 70 per cent by value of its holdings must be in qualifying holdings. The maximum value of any single investment is 15 per cent at the time of investment.

The Company invests in UK businesses across a broad range of sectors including, but not limited to, Software, IT & Telecommunications, Business Services, Manufacturing & Industrial Services, Retail & Brands and Healthcare, in VCT qualifying and non-qualifying unquoted and AIM traded securities.

The Company invests in a range of securities which may include ordinary and preference shares and fixed income securities, such as corporate bonds and gilts. Unquoted investments are structured so as to spread risk and enhance revenue yields, usually as a combination of ordinary shares, preference shares and loan stock, while AIM securities are generally held in ordinary shares.

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 VCT plc and British Smaller Companies VCT2 plc ("the VCTs") have in aggregate first choice of all investment opportunities requiring up to £4.5 million of equity. Amounts above £4.5 million may be allocated one third to YFM's institutional co-investment fund and two thirds to the VCTs. Where there are opportunities for the VCTs to co-invest with each other the proposed 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 in the circumstances 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 and non-VCT qualifying unquoted or AIM traded securities, surplus cash is primarily held in interest bearing instant access, notice and fixed term bank accounts and can also be invested in non-qualifying unquoted investments.

Remuneration Policy

The Company's policy on the remuneration of its directors, all of whom being non-executive directors, can be found on page 43.

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 page 2. In addition to these the Company's anti-bribery and environmental and social responsibilities policies can be found on page 32.

PRACTICES 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 as necessary and HMRC clearance is obtained for approval as a Qualifying Investment.

The Board approves all investment and divestment decisions save in that new investments up to £250,000 in companies whose shares are traded on AIM or a recognised UK 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 paid as at the last Business Day in December in any year plus the middle market quotation per share exceeds 120 pence per share on that same day, multiplied by the number of shares issued and the shares under option (if any). These 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.

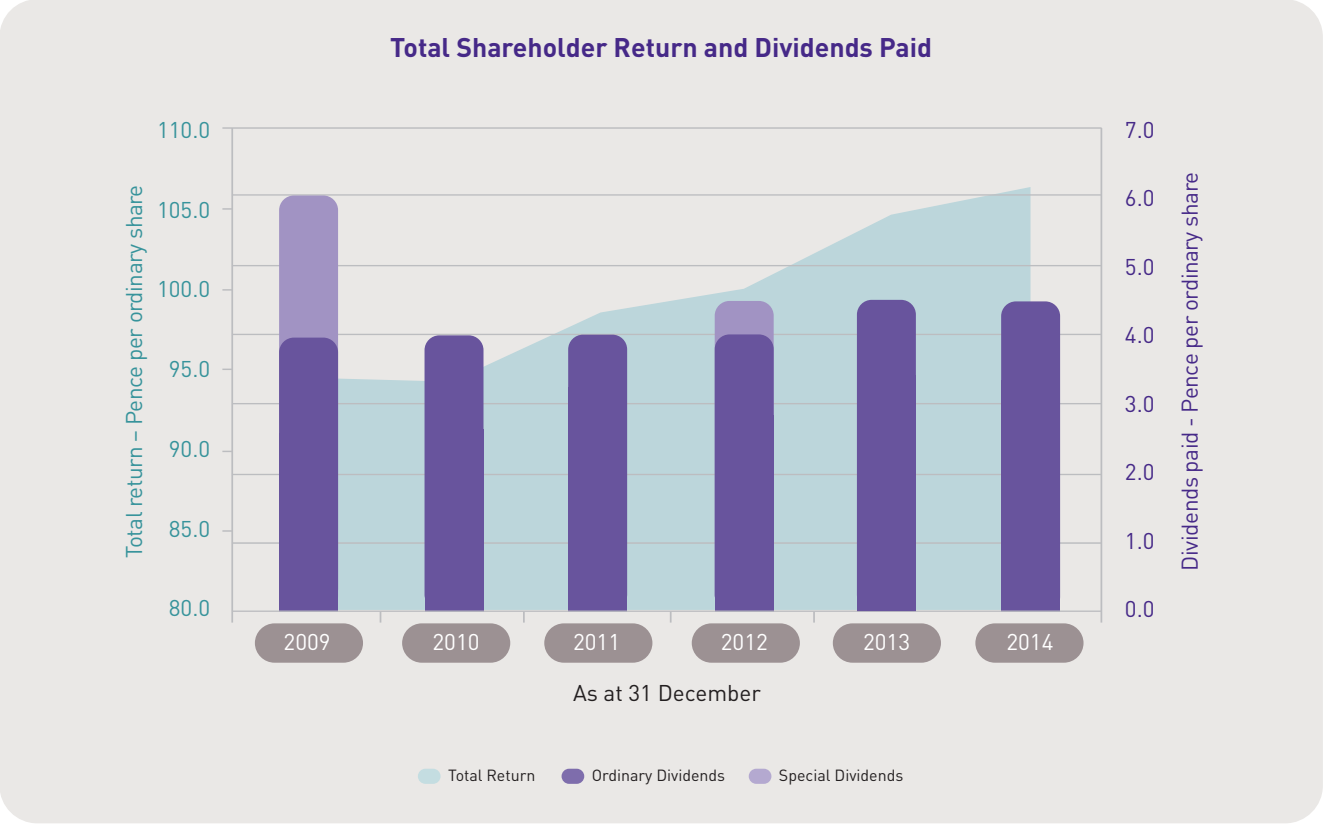
In the opinion of the directors the continuing appointment of YFM Private Equity Limited as Investment Adviser is in the interests of the shareholders as a whole in view of its experience in advising venture capital trusts and in making, managing and exiting investments of the kind falling within the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

KEY PERFORMANCE INDICATORS

The Company monitors a number of key performance indicators, which are typical for VCTs, as detailed below:

Total Return

The recognised measurement of financial performance in the VCT industry is that of total return (expressed in pence per share) calculated by adding the total cumulative dividend paid to shareholders from the date a company is launched to its current reporting date, inclusive of any tax credits, to the net asset value at that date. The chart below shows the five year total return of your Company, calculated by reference to the net asset value per ordinary share plus cumulative dividends paid per ordinary share.



The evaluation of comparative success of the Company's total return is by way of reference to the share price total return for approximately 60 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 45.

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 two columns include the benefit of tax reliefs as noted.

Tax Year	Offer price	Offer price net of initial tax relief	Net asset value as at 31 December 2014	Cumulative dividends paid since fundraising [1]	Total return since fundraising/ date of acquisition	Overall return including tax relief since fundraising without participation in the DRIS [2]	Overall return including tax relief since fundraising with participation in the DRIS [3]
	Pence	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02	100.00	80.00	62.90	43.50	106.40	126.40	155.44
2001/02 and 2002/03	100.00	80.00	62.90	43.50	106.40	126.40	155.44
December 2005 issue of shares on acquisition of British Smaller Technology Companies [4]	100.00	80.00	43.19	28.94	72.13	92.13	142.00
2009/10 and 2010/11	77.25	54.08	62.90	21.50	84.40	107.58	119.07
2010/11 and 2011/12	70.25	49.18	62.90	17.50	80.40	101.48	110.26
2011/12	70.50	49.35	62.90	13.50	76.40	97.55	103.78
2012/13 and 2013/14	68.00	47.60	62.90	9.00	71.90	92.30	96.12
2013/14 and 2014/15	68.00	47.60	62.90	4.50	67.40	87.80	89.41

Notes
1 This assumes that at the time of investment the tax relief given on the investment was not also invested in shares of the Company.
2 NAV plus cash dividends paid plus tax relief on initial subscription.
3 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.
4 Assuming initial offer price and initial tax relief from original subscription in British Smaller Technology Companies VCT plc.

Expenses

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 and, whilst based on historical information, provides an indication of the likely level of costs that will be incurred in managing the fund in the future. The Ongoing Charges figure has fallen since 31 December 2013 as the raising of additional capital in the year has spread the fixed costs over a larger asset base.

The Ongoing Charges figure replaces the Total Expense Ratio (TER%) previously reported. TER% is calculated as the annual ongoing charges (excluding any performance related fees, trail commission payable to financial intermediaries, but excluding VAT) over total net asset value as at the relevant period end and forms the basis of any expenses in excess of the operating costs cap described in note 3 on page 58. There was no breach of the cap in the current or prior year. Following the final allotment in respect of the current fundraising the costs cap will be reduced from 3.25 per cent to 2.9 per cent.

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 Advisers, twice a year. The Board can confirm that during the period all of the VCT legislative tests have been met.

Expenses

	Year to 31 December 2014 (%)	Year to 31 December 2013 (%)
Ongoing Charges figure	**2.56**	**2.83**

With effect from 1 January 2015, Robertson Hare LLP replaced PricewaterhouseCoopers LLP as VCT Status Adviser to the Company.

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:

Income Test

The Company's income in the period must be derived wholly or mainly (70 per cent) from shares or securities. The Company complied with this test in the period, with 89.68 per cent (2013: 72.79 per cent) of income being derived from such sources.

Retained Income Test

The Company must not retain more than 15 per cent of its income from shares and securities. The Company complied with this test in the period, with 0 per cent (2013: 0 per cent) of income being retained in the period subject to payment of the final dividend to be approved at the Annual General Meeting on 15 May 2015.

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. The Company complied with this test, with 77.54 per cent (2013: 85.04 per cent) of value being in qualifying holdings.

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. The Company complied with this test, with 39.95 per cent (2013: 46.42 per cent) of value being in holdings of eligible ordinary shares.

For monies raised from 6 April 2011 onwards the eligible shares test highlighted above increases to at least 70 per cent of qualifying holdings that must be represented by eligible shares. The Company complied with this test, with 76.92 per cent of value being in holdings of eligible shares.

In addition, monies raised from share issues from 6 April 2012 onwards are not permitted to be used to finance buy-outs or otherwise to acquire existing shares. There is also an annual limit for each investee company which provides that they may not raise more than £5.0 million of state aid investment (including from VCTs) in the 12 months ending on the date of each investment.

The Board and Investment Adviser are mindful of these additional requirements and of balancing investments to ensure continued compliance.

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 Company has complied with this test with the highest such value being 5.24 per cent (2013: 6.72 per cent).

Other

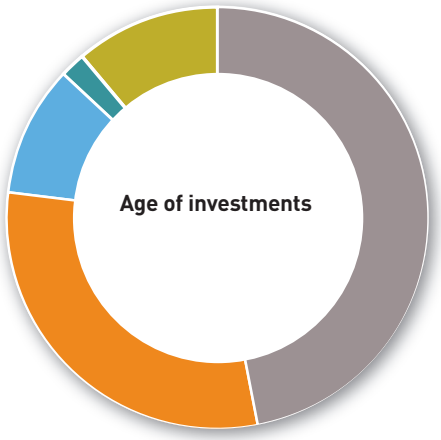
The Finance Bill 2014 contained conditions/restrictions with respect to the use of monies in respect of VCTs. In particular, no dividends can be paid out of cancelled share premium arising from shares allotted on or after 6 April 2014 until at least three financial years have elapsed. In the case of the Company this is 31 December 2017.

From the share premium cancellation of £13.55 million on 10 October 2014, £12.21 million will be available for distribution following the filing of the annual report and accounts and £1.34 million will remain undistributable until 31 December 2017.

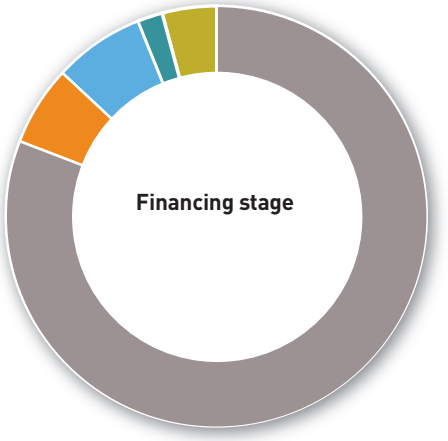
INVESTMENT PERFORMANCE

The £13.6 million of investments in the year to 31 December 2014 has significantly increased the scale and diversification of the portfolio.

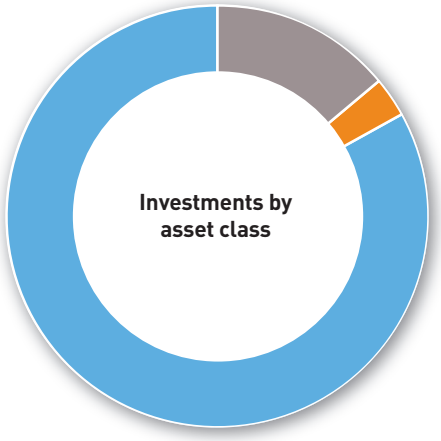
- Business Services – 35%
- Manufacturing and Industrial – 23%
- Healthcare – 13%
- Software, IT and Telecommunications – 17%
- Retail and Brands – 12%



- Less than 1 year – 47%
- Between 1 and 3 years – 30%
- Between 3 and 5 years – 10%
- Between 5 and 7 years – 2%
- Greater than 7 years – 11%



- MBO-MBI – 81%
- Development – 6%
- Early Expansion – 7%
- IPO – 2%
- AIM – 4%



- Non Qualifying – 14%
- Qualifying and Listed – 3%
- Qualifying and Not Listed – 83%

The improving economic outlook and changes in EU restrictions on qualifying VCT investments allowing investments in any 12 month period up to £5.0 million from VCT funds have contributed to an increase in the volume and size of investment opportunities with this trend continuing into 2015.

Investment Review

Considerable progress has been made by many of the businesses in the Company's investment portfolio during the year with an overall value gain of £0.98 million excluding movements due to investments and realisations. This has enabled the Company to maintain its strong investor returns and is further analysed in Table A below. The proposed final dividend is 2.5 pence per ordinary share. Since the year end one investment for £0.4 million has been completed. A further four investments totalling £3.4 million have been approved at the date of this report.

At 31 December 2014 the investment portfolio was valued at £28.2 million, representing 71.7 per cent of net assets (53.4 per cent at 31 December 2013). Cash at 31 December 2014 was £10.6 million representing 27.0 per cent of net assets (43.3 per cent at 31 December 2013, 46.19 per cent including gilt investments).

Significant Investment Movements

Unquoted

The £0.37 million unrealised valuation gain from the unquoted portfolio is as a result of good progress by a number of businesses which have seen profit growth. The top four value gains in the period all resulted from filing of improved profitability:

- GTK (Holdco) Limited (value gain of £0.45 million) supplier of specialist electronic components;
- Mangar Health Limited (value gain of £0.44 million) manufacturer of lifting products for care of the elderly;
- Intelligent Office Limited (value gain of £0.40 million) provider of outsourced business services; and
- Callstream Group Limited (value gain of £0.27 million) supplier of telephone services to SMEs.

These gains were partially offset by two businesses which saw profits impacted by short term reductions in public sector defence budgets:

- Seven Technologies Holdings Limited (down £0.79 million) a supplier of remote telecoms surveillance systems; and
- Deep-Secure Limited (down £0.49 million) supplier of secure communication software to high security government and military departments.

Quoted

The performance of the quoted portfolio in the period has been mixed, resulting in a £0.26 million overall reduction. The two most significant value movements were EKF Diagnostic Holdings plc (a fall of £0.12 million) and Iomart Group plc (a fall of £0.12 million), albeit both have subsequently recovered.

Investment Portfolio (excluding fixed income securities) — Table A

	£000	%
Unquoted value gain	368	37.5
Quoted value loss	(257)	(26.2)
Gain on disposal over opening value	560	57.1
Portfolio movement	671	68.4
Gain from deferred proceeds	310	31.6
Total Value Movement	**981**	**100.0**

Your Portfolio

Fair value of the portfolio

Increase of 73%

(2013: £16.3 million)

Number of portfolio companies with value over £0.5 million

(2013: 11)

Income from the portfolio

Increase of 84%

(2013: £0.69 million)

Level of new investment

(2013: £5.5 million)

Number of new portfolio companies

(2013: 4)

New and Follow-On Investments

Table B

Date	Company	Investments made £m		
		New	Follow-on	Total
Jan-14	Mangar Health Limited	1.64		1.64
Mar-14	EKF Diagnostics Holdings plc*		0.06	0.06
May-14	Intelligent Office UK Limited (via IO Outsourcing Limited)	1.96		1.96
May-14	EKF Diagnostics Holdings plc*		0.15	0.15
Jun-14	AB Dynamics plc*		0.10	0.10
Jun-14	Intamac Systems Limited	0.75		0.75
Jun-14	Macro Art Holdings Limited	0.84		0.84
Sep-14	Harvey Jones Holdings Limited		0.80	0.80
Sep-14	The Heritage Window Company Holdco Limited	1.27		1.27
Oct-14	Gamma Communications plc*	0.17		0.17
Oct-14	Cambrian Park & Leisure Homes Limited	1.20		1.20
Oct-14	Springboard Research Holdings Limited	1.19		1.19
Nov-14	ACC Aviation (via NewAcc (2014) Limited)	1.38		1.38
Nov-14	Business Collaborator Limited	1.34		1.34
Dec-14	Wakefield Acoustics (via Malvar Engineering Limited)	0.72		0.72
Dec-14	PowerOasis Limited		0.03	0.03
	Invested in the 12 months to 31 December 2014	**12.46**	**1.14**	**13.60**

* Quoted company

New Investments

During the year ended 31 December 2014 the Company completed sixteen investments totalling £13.6 million (excluding capitalised interest and non-cash proceeds received on the sale of investments). This comprised of ten new unquoted and one new quoted investments and five follow-on investments into existing portfolio companies and is analysed in Table B.

New Investments

The eleven new investments during the year totalled £12.46 million:

- In January 2014 the Company invested £1.64 million to fund the management buyout of **Mangar Health Limited**, a world leader in inflatable lifting, handling and bathing equipment for the elderly, disabled and emergency services markets.
- In May 2014 the Company invested £1.96 million to fund the management buyout of **Intelligent Office UK Limited**, a leading provider of business process outsourcing solutions to the UK legal sector.
- In June 2014 the Company provided £0.75 million of growth capital funding to **Intamac Systems Limited**, which develops technology to connect physical products via the internet so they can be monitored and controlled using smart mobile phones and computers.
- In June 2014 the Company invested £0.84 million to fund the management buyout and growth capital for **Macro Art Holdings Limited**, a specialist wide-format digital printer.
- In September 2014 the Company funded the management buyout and provided development capital with an investment of £1.27 million into **The Heritage Window Company Holdco Limited**, a specialist manufacturer and supplier of slim line aluminium windows.
- In October 2014 the Company invested £0.17 million as part of an AIM placing to support the expansion of **Gamma Communications plc**, a leading provider of voice, data and mobile communication services to UK businesses.
- In October 2014 the Company invested £1.20 million to support the management buyout of **Cambrian Park & Leisure Homes Limited**, the largest holiday lodge builder in Wales.
- In October 2014 the Company invested £1.19 million to support the management buyout of **Springboard Research Holdings Limited**, a leading provider of retail performance monitoring and data services.
- In November 2014 the Company invested £1.38 million to support the management buyout and future growth plans of **ACC Aviation**, a specialist broker of leasing and chartering services to international airlines.
- In November 2014 the Company invested £1.34 million in backing the management buyout of market leading software company **Business Collaborator Limited** which facilitates collaboration within the construction sector.
- In December 2014 the Company invested £0.72 million in the management buyout of **Wakefield Acoustics**, a specialist supplier of industrial acoustic solutions.

The majority of the above investments are valued at cost and will be moved to earnings-based valuations during 2015. The £1.14 million of investments into existing portfolio companies during the year was dominated by £0.80 million invested into kitchen manufacturer and retailer **Harvey Jones Holdings Limited** in the form of a high-yielding debt instrument.

Disposal of Investments

During the year to 31 December 2014 the Company received proceeds from disposals, repayments of loans and deferred consideration of £2.74 million, and £1.37 million from the disposal of fixed income securities. Overall this resulted in a value gain on disposal of investments of £0.87 million compared to 31 December 2013 valuations and a realised gain on cost of £1.71 million. This is analysed in Table C.

The most significant proceeds related to:

- In December 2014 the Company realised its investment in leading independent contract caterer Waterfall Sevices Limited via a secondary buyout backed by LDC. Proceeds from the sale in December were £0.96 million, a profit on the 31 December 2013 carrying value of £0.48 million and a profit on cost of £0.94 million.
- £0.35 million of additional deferred proceeds was received from Beckton Dickinson relating to the trade sale of Sirigen Group Limited in 2012, following successful delivery of the two year development milestones. This brings the total proceeds to date to £1.88 million and increases the cash return to 3.6x.
- During the year the Company sold various shares in quoted holdings. The non-core holdings in Vianet Group plc and Optos plc were realised for £0.33 million in line with the opening 31 December 2013 value. Holdings in Pressure Technologies plc and Iomart Group plc were also partially realised for combined proceeds of £0.30 million, realising a gain on their opening carrying value of £0.06 million.
- Several unquoted investments repaid loan balances totalling £0.72 million following strong cash generation, resulting in a small realised profit on carrying value due to redemption premium. This included DisplayPlan Holdings Limited (£0.23 million), GTK (Holdco) Limited (£0.23 million), Callstream Group Limited (£0.17 million), Bagel Nash Group Limited (£0.08 million) and Macro Art Holdings Limited (£0.02 million).

A further analysis of all investments sold in the year can be found in note 7 to the financial statements on page 63.

Portfolio Composition

As at 31 December 2014 the portfolio of quoted and unquoted investments had a value of £28.2 million of which the unquoted investments constitute 92 per cent of the value and the quoted investments 8 per cent of the value. An analysis of the movements in the year is shown on page 21.

This year we have continued to improve the diversification of the portfolio. This is probably shown most clearly by the fact that at 31 December 2014 there were 21 investments with a value greater than £0.5 million which compares to just 11 a year earlier.

The charts on page 14 of these financial statements show the composition of the portfolio as at 31 December 2014 by industry sector, age of investment, asset class and the stage of financing at the point of investment. This demonstrates representation across a wide range of industry sectors.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out on page 55, 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 2014 the percentage of investments falling into each valuation category is shown in Table D below.

Disposal of Investments

Table C

	Net proceeds from sale of investments £000	Cost of investments £000	Opening value 31 December 2013 £000	Gain on opening value £000	Gain on cost £000
Sale of portfolio investments	2,314	1,036	1,754	560	1,278
Deferred proceeds received	345	–	120	225	345
Deferred proceeds accrued	85	–	–	85	85
Investment portfolio disposals	2,744	1,036	1,874	870	1,708
Fixed income securities disposals	1,365	1,363	1,365	–	2
Total investment and fixed income securities disposals	**4,109**	**2,399**	**3,239**	**870**	**1,710**

Valuation Policy

Table D

	Valuation £000	% of portfolio by value
Earnings multiple	16,604	59
Cost, reviewed for change in fair value	7,843	28
Price of recent investment, reviewed for change in fair value	1,641	5
Quoted investments at bid price	2,128	8
Total	**28,216**	**100**

Summary and Outlook

Some clearer signs of economic recovery have been seen during the year but there remains some uncertainty in global markets. Many of the portfolio companies have delivered improved results, focusing on proven brands, niche growth sectors or rolling out new technology. We will maintain a cautious approach to new investments; only backing proven business models with a clear strategy for value growth.

We have seen a marked increase in new investment levels in 2014. This is in part due to changes in EU restrictions on qualifying VCT investments and we expect to see this investment level continue in 2015.

We believe that the increasing level of investment, combined with several good exit prospects over the next few years, affords the Board the opportunity to achieve its aim of increasing dividends whilst preserving and enhancing the underlying net asset value. The increasing diversification of the portfolio should also help to reduce volatility of returns.

David Hall
YFM Private Equity Limited
26 March 2015

Investment Portfolio Summary at 31 December 2014

Page No.	Current investments	Date of Initial Investment	Location	Industry sector	Current cost £000	Proceeds to date* £000	Valuation at 31 December 2014 £000	Realised & unrealised return to date £000
	Unquoted Portfolio							
22	Intelligent Office (via IO Outsourcing Limited)	May-14	Alloa	Business Services	1,956	–	2,355	2,355
23	DisplayPlan Holdings Limited	Jan-12	Baldock	Business Services	525	228	2,008	2,236
23	Mangar Health Limited	Jan-14	Powys	Healthcare	1,640	–	2,081	2,081
23	Gill Marine Holdings Limited	Sep-13	Nottingham	Retail & Brands	1,870	–	1,732	1,732
27	Seven Technologies Holdings Limited	Apr-12	Belfast	Software, IT & Telecomms	1,238	762	924	1,686
24	GTK (Holdco) Limited	Oct-13	Basingstoke	Manufacturing & Ind Services	916	234	1,365	1,599
24	ACC Aviation (via Newacc (2014) Limited)	Nov-14	Reigate	Business Services	1,379	–	1,379	1,379
24	Business Collaborator Limited	Nov-14	Reading	Business Services	1,340	–	1,340	1,340
25	The Heritage Window Company Holdco Limited	Sep-14	Sevenoaks	Manufacturing & Ind Services	1,268	–	1,268	1,268
25	Cambrian Park & Leisure Homes Limited (via DWFCO 8 Limited)	Oct-14	Gwynedd	Manufacturing & Ind Services	1,200	–	1,200	1,200
25	Harvey Jones Holdings Limited	May-07	London	Retail & Brands	1,193	–	1,194	1,194
26	Springboard Research Holdings Limited	Oct-14	Bedfordshire	Business Services	1,186	–	1,186	1,186
26	Leengate Holdings Limited	Dec-13	Derbyshire	Manufacturing & Ind Services	934	–	1,080	1,080
27	Callstream Group Limited	Sep-10	Henley-in-Arden	Software, IT & Telecomms	329	265	773	1,038
26	Immunobiology Limited	Jun-03	Cambridge	Healthcare	1,932	–	987	987
27	Macro Art Holdings Limited	Jun-14	Cambridgeshire	Business Services	819	21	847	868
	RMS Group Holdings Limited	Jul-07	Goole	Manufacturing & Ind Services	70	349	405	754
28	Intamac Systems Limited	Jun-14	Northampton	Software, IT & Telecomms	750	–	750	750
28	Wakefield Acoustics (via Malvar Engineering Limited)	Dec-14	Cleckheaton	Business Services	720	–	720	720
29	Bagel Nash Group Limited	Jul-11	Leeds	Retail & Brands/ Manufacturing & Ind Services	732	93	590	683
28	PowerOasis Limited	Nov-11	Swindon	Software, IT & Telecomms	594	–	594	594
29	Insider Technologies (Holdings) Limited	Aug-12	Manchester	Software, IT & Telecomms	780	–	522	522
	Deep-Secure Limited	Dec-09	Malvern	Software, IT & Telecomms	500	–	424	424
	Selima Holding Company Limited	Mar-12	Sheffield	Software, IT & Telecomms	300	–	304	304
	Other				422	–	60	60
	Total unquoted investments				**24,593**	**1,952**	**26,088**	**28,040**
	Quoted Portfolio							
	Pressure Technologies plc	Jun-07	Sheffield	Manufacturing & Ind Services	120	498	289	787
	Iomart Group plc	May-11	London	Software, IT & Telecomms	119	209	231	440
	AB Dynamics plc	May-13	Bradford-on-Avon	Manufacturing & Ind Services	253	–	364	364
	Brady plc	Dec-10	Cambridge	Software, IT & Telecomms	134	163	178	341
	EKF Diagnostics Holdings plc	Jun-11	London	Healthcare	437	–	340	340
	Hargreaves Services plc	Aug-12	Durham	Manufacturing & Ind Services	325	–	262	262
	Gamma Communications plc	Oct-14	Reading	Software, IT & Telecomms	168	–	213	213
	Cambridge Cognition Holdings plc	May-02	Cambridge	Healthcare	240	–	141	141
	Allergy Therapeutics plc	Oct-04	Worthing	Healthcare	350	–	110	110
Total quoted investments					**2,146**	**870**	**2,128**	**2,998**
					26,739	**2,822**	**28,216**	**31,038**
Full disposals to date					16,060	22,323	–	22,323
Total investment portfolio					**42,799**	**25,145**	**28,216**	**53,361**

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

Disposal History to 31 December 2014

Name of Company	Date of initial investment	Date of disposal or full provision	Industry sector	Cost £000	Proceeds to date £000	Capital return multiple x	Gains (losses) on disposal £000
Disposed Investments							
Cozart plc	Jul-04	Oct-07	Healthcare	1,566	2,978	1.90	1,412
Sarian Systems Limited	Dec-05	Apr-08	Telecoms	928	2,605	2.81	1,677
DxS Limited	Apr-04	Sep-09	Healthcare	163	2,514	15.42	2,351
Vibration Technology Limited	Mar-02	Sep-06	Industrial	1,061	2,328	2.19	1,267
Primal Pictures Limited	Dec-05	Aug-12	Medical Instruments	961	2,256	2.35	1,295
Sirigen Group Limited	Jun-10	Aug-12	Medical Technology	517	1,876	3.63	1,359
Amino Technologies plc	Sep-01	Nov-04	Electronics	415	1,872	4.51	1,457
Waterfall Services Limited	Feb-07	Dec-14	Business Services	483	1,422	2.94	939
Digital Healthcare Limited	Jun-05	Aug-13	Medical Instruments	3,072	1,285	0.42	(1,787)
The ART Technology Group Inc	Apr-03	Oct-09	Software	275	638	2.32	363
Tamesis Limited	Jul-01	Sep-07	Software	150	317	2.11	167
Optos plc	Dec-05	Jan-14	Healthcare	152	316	2.08	164
Tekton Group Limited	Dec-05	Dec-06	Software	103	296	2.87	193
Tikit Group plc	May-11	Jan-13	Software	198	283	1.43	85
Oxonica plc	May-02	Sep-09	Chemical	241	258	1.07	17
Group NBT plc	May-11	Nov-11	IT Support	197	256	1.30	59
Vianet Group plc	Oct-06	Sep-14	Business Services	243	176	0.72	(67)
Patsystems plc	Sep-07	Jan-12	Software	317	164	0.52	(153)
May Gurney Integrated Services plc	May-11	Mar-13	Construction	211	141	0.67	(70)
Arakis Limited	Mar-04	Aug-05	Healthcare	14	108	7.71	94
SoseiCo Limited	Aug-05	Feb-06	Healthcare	158	94	0.59	(64)
Voxar Limited	Dec-05	Nov-06	Software	–	91	–	91
Sirus Pharmaceuticals Limited	Sep-01	Mar-04	Healthcare	270	18	0.07	(252)
Broadreach Networks Limited	Feb-03	Dec-05	Telecoms	550	17	0.03	(533)
Focus Solutions Group plc	Dec-05	Feb-06	Software	7	7	1.00	–
Oxis Energy Limited	Dec-05	Dec-12	Electronics	5	4	0.80	(1)
2ergo Group plc	May-11	Jun-13	Software	197	3	0.02	(194)
Ellfin Home Care Limited	Dec-07	Dec-13	Healthcare	317	–	–	(317)
Infinite Data Storage Limited	Mar-02	Dec-07	Software	425	–	–	(425)
Purely Proteins Limited	Nov-03	Dec-06	Software	438	–	–	(438)
ExpressOn Biosystems Limited	Oct-02	Dec-05	Healthcare	450	–	–	(450)
Comvurgent Limited	Dec-05	Dec-07	Software	611	–	–	(611)
Silistix Limited	Dec-03	Dec-10	Electronics	1,365	–	–	(1,365)
Total				**16,060**	**22,323**	**–**	**6,263**

Investment acquired solely from the merger with British Smaller Technology Companies VCT plc in December 2005

Investment made prior to 31 December 2003

Reconciliation of Investment Portfolio Movement since 31 December 2013

Name of Company	Investment valuation at 31 December 2013 £000	Disposal proceeds £000	Additions £000	Valuation gains including profits/ (losses) on disposal £000	Investment valuation at 31 December 2014 £000
Intelligent Office (via IO Outsourcing Limited)	–	–	1,956	399	2,355
Mangar Health Limited	–	–	1,640	441	2,081
DisplayPlan Holdings Limited	2,142	(228)	–	94	2,008
Gill Marine Holdings Limited	1,870	–	–	(138)	1,732
ACC Aviation (via Newacc (2014) Limited)	–	–	1,379	–	1,379
GTK (Holdco) Limited	1,141	(225)	–	449	1,365
Business Collaborator Limited	–	–	1,340	–	1,340
The Heritage Window Company Holdco Limited	–	–	1,268	–	1,268
Cambrian Park & Leisure Homes Limited	–	–	1,200	–	1,200
Harvey Jones Holdings Limited	441	–	804	(51)	1,194
Springboard Research Holdings Limited	–	–	1,186	–	1,186
Leengate Holdings Limited	934	–	–	146	1,080
Immunobiology Limited	987	–	–	–	987
Seven Technologies Holdings Limited	1,711	–	–	(787)	924
Macro Art Holdings Limited	–	(21)	840	28	847
Callstream Group Limited	674	(169)	–	268	773
Intamac Systems Limited	–	–	750	–	750
Wakefield Acoustics (via Malvar Engineering Limited)	–	–	720	–	720
PowerOasis Limited	425	–	27	142	594
Bagel Nash Group Limited	733	(80)	8	(71)	590
Insider Technologies (Holdings) Limited	689	–	–	(167)	522
Deep-Secure Limited	915	–	–	(491)	424
Waterfall Services Limited	489	(964)	–	475	–
Other Investments	3,104	(627)	486	(66)	2,897
Total Movement	**16,255**	**(2,314)**	**13,604**	**671**	**28,216**

INVESTEE COMPANY INFORMATION

Manufacturing and Industrial Services	Retail and Brands	Software, IT and Telecommunications	Healthcare	Business Services
Fair value	**Fair value**	**Fair value**	**Fair value**	**Fair value**
£6.5m	£3.2m	£4.9m	£3.7m	£9.9m
2013: £3.9m	2013: £2.7m	2013: £5.3m	2013: £1.6m	2013: £2.8m
Number of companies	**Number of companies**	**Number of companies**	**Number of companies**	**Number of companies**
8.5	2.5	11	6	7
2013: 6.5	2013: 2.5	2013: 9	2013: 7	2013: 3

Investment Portfolio

This section describes the business of the active companies in the portfolio with a value greater than £0.5 million in order of valuation at 31 December 2014. The Company's voting rights in an investee company are the same as the percentage of equity held for each investment detailed below.

Intelligent Office
(via IO Outsourcing Limited)

Alloa, Scotland
www.intelligentofficeuk.com

Cost:	£1,956,000
Valuation:	£2,355,000
Date of initial investment:	May 2014
Equity held:	17.77%
Valuation basis:	Earnings multiple
Interest:	£25,636
Dividends:	£55,160

Year ended 30 September	**2014 £million**
Sales	**18.60**
EBITA	**1.26**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

In May 2014 the Company supported the management buy-out of **Intelligent Office**, a leading provider of process outsourcing solutions to UK legal practices. The Managed Services division works within firms' own premises to help them transform and manage key administrative functions and secretarial services, creating significant operational efficiencies. Transcription services are also provided from a central facility in Glasgow.

Mangar Health Limited

Powys
www.mangar.co.uk

Cost:	£1,640,000
Valuation:	£2,081,000
Date of initial investment:	January 2014
Equity held:	14.85%
Valuation basis:	Earnings multiple
Interest:	£120,416

Year ended 31 July	**2014 £million**
Sales	**6.91**
EBITA	**1.66**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

Mangar is a world leader in inflatable lifting and handling and bathing equipment for the elderly, disabled and emergency services markets. It distributes its products to care providers, local authorities, ambulance services and care homes, predominantly in the UK. Mangar has some strong established brands and its products help facilitate greater independence for elderly users, a market expected to see continued growth over the medium term

DisplayPlan Holdings Limited

Baldock, Herts
www.displayplan.com

Cost:	£525,000
Valuation:	£2,008,000
Date of initial investment:	January 2012
Equity held:	12.25%
Valuation basis:	Earnings multiple
Interest:	£45,884 (2013: £63,000)
Dividends:	£nil (2013: £22,332)

Year ended 31 December	**2013 £million**	2012 £million
Sales	**16.50**	19.97
EBITA	**2.20**	3.35
Profit before tax	**1.66**	2.99
Retained profits	**3.49**	2.40
Net assets	**3.89**	2.81

DisplayPlan provides retail display solutions to branded product manufacturers and UK retailers, from design to finished product delivery. Very strong profits were achieved in the first two years since investment due to international store refit programmes. A key focus is now to increase the diversity of the customer base to reduce volatility.

Gill Marine Holdings Limited

Nottingham
www.gillmarine.com

Cost:	£1,870,000
Valuation:	£1,732,000
Date of initial investment:	September 2013
Equity held:	13.81%
Valuation basis:	Earnings multiple
Interest:	£213,487 (2013: nil)

Year ended 30 September	**2014 £million**
Sales	**12.26**
EBITA	**1.27**
Profit before tax	**0.14**
Retained profits	**0.05**
Net assets	**1.61**

Prior year figures not applicable as pre investment.

Gill Marine is a manufacturer of technical sailing equipment and clothing and the official technical clothing sponsor for the internationally renowned Cowes Week Regatta. Exports account for over 70 per cent of turnover. The strategy is to develop the brand further, increase market share in existing and new markets and establish a direct sales channel.

ACC Aviation (via Newacc (2014) Limited)

Reigate, Surrey
www.flyacc.com

Cost:	£1,379,000
Valuation:	£1,379,000
Date of initial investment:	November 2014
Equity held:	14.69%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£4,146
Dividends:	£8.544

Year ended 31 December	**2014 £million**
Sales	**52.11**
EBITA	**1.12**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

With annual sales of over £50 million, **ACC Aviation** has built an excellent reputation for providing services to clients across the world in all aspects of aircraft leasing, charter and flight management. The airline industry continues to change at a fast pace as passenger demand grows and air travel expands across the globe. ACC Aviation has built an excellent reputation and is well placed to deliver further growth.

GTK (Holdco) Limited

Basingstoke
www.gtk.co.uk

Cost:	£916,000
Valuation:	£1,365,000
Date of initial investment:	October 2013
Equity held:	18.20%
Valuation basis:	Earnings multiple
Interest:	£73,301 (2013: £17,980)

Year ended 31 July	**2014 £million**	2013 £million
Sales	**9.75**	9.29
EBITA	**0.69**	0.59
Profit before tax	**0.69**	0.59
Retained profits	**1.54**	1.34
Net assets	**1.54**	1.34

GTK is a manufacturer of cable assemblies, connectors, optoelectronics and manufacturing solutions for high technology customers. With a small sourcing team in Taiwan it provides design, procurement and manufacturing services of essential but non-core electronic components for customers in sectors such as precision instrumentation, defence/security and contract equipment manufacturing.

Business Collaborator Limited

Reading
www.groupbc.com

Cost:	£1,340,000
Valuation:	£1,340,000
Date of initial investment:	November 2014
Equity held:	19.38%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£12,306

The company was a division of a group not separately accounted for. The first set of accounts will be made up for the period ending 30 November 2015.

Business Collaborator is an established provider of collaboration software to the construction sector and a leader in the nascent Building Information Modelling ("BIM") software market. It provides a centralised Common Data Environment that is fully auditable enabling geographically dispersed teams to store and share project information and processes securely in the Cloud. Growth is driven by cost savings to construction firms and asset owners, supported by government regulations.

The Heritage Window Company Holdco Limited

Sevenoaks
www.theheritagewindowcompany.co.uk

Cost:	£1,268,000
Valuation:	£1,268,000
Date of initial investment:	September 2014
Equity held:	28.00%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£8,416
Dividends:	£19,504

Year ended 31 July	**2014 £million**
Sales	**6.22**
EBITA	**0.64**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

Heritage Windows manufactures and sells slim line aluminium windows under the Benenden range. The windows are all made to order at its manufacturing facility in South London and sold from showrooms in Beaconsfield, Dorking, Bellingham and Sevenoaks. A new A-rated energy efficient range has been developed and the strategy is to progressively rollout the successful product range into other geographical regions.

Cambrian Park & Leisure Homes Limited
(via DWFCO 8 Limited)

Gwynedd
www.cambrianleisurehomes.co.uk

Cost:	£1,200,000
Valuation:	£1,200,000
Date of initial investment:	October 2014
Equity held:	16.00%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£16,145
Dividends:	£3,890

Year ended 31 July	**2014 £million**
Sales	**9.21**
EBITA	**1.36**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

Based in Porthmadog, north Wales, **Cambrian** designs and builds timber holiday lodges for the UK holiday park market. In the past two years turnover has increased by over 30 per cent through new contracts wins with a wide range of holiday park operators and with a strong reputation for quality and an established product range the business is well placed to continue this growth.

Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost:	£1,193,000
Valuation:	£1,194,000
Date of initial investment:	May 2007
Equity held:	3.44%
Valuation basis:	Earnings multiple
Interest:	£ 74,756 (2013: £41,965)

Year ended 31 December	**2013 £million**	2012 £million
Sales	**15.56**	14.48
EBITA	**0.64**	0.87
(Loss)/profit before tax	**(0.12)**	0.13
Retained profits	**0.04**	0.20
Net assets	**0.57**	0.73

Harvey Jones is a manufacturer/retailer of kitchen furniture with showrooms in London and affluent provincial towns across the UK. The business has continued to open new showrooms, increasing its footprint from 10 at the time of the management buy-out to 30 currently and significantly increasing its market share. The team believes there are still a significant number of possible store locations to continue the successful rollout model.

Springboard Research Holdings Limited

Bedfordshire
www.spring-board.info

Cost:	£1,186,000
Valuation:	£1,186,000
Date of initial investment:	October 2014
Equity held:	8.87%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£11,261
Dividends:	£11,179

Year ended 31 December	**2013 £million**
Sales	**2.37**
EBITA	**Not available**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

Springboard Research is a leading provider of retail performance monitoring; providing footfall, dwell time and conversion rates, sales analysis and data driven insights. It is the official provider of footfall data and benchmarks to the British Retail Consortium, Shopping Centre Magazine and Drapers Magazine this year. A continually shifting retail environment with a wide range of economic, multi-channel and spend trends means that retailers and landlords are seeking new ways of improving their competitive advantage.

Leengate Holdings Limited

Derbyshire
www.leengatevalves.co.uk

Cost:	£934,000
Valuation:	£1,080,000
Date of initial investment:	December 2013
Equity held:	7.00%
Valuation basis:	Earnings multiple
Interest:	£78,456 (2013: Nil)
Dividends:	£22,477 (2013: Nil)

Year ended 31 December	**2013 £million**
Sales	**6.79**
EBITA	**1.00**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

Leengate Valves is a wholesaler, stockist and distributor, supplying one of the largest ranges of industrial valves in the UK to leading re-sellers in the gas, water and industrial sectors. In addition it supplies engineering actuation and automation packages, offering a next day service and high quality technical advice. Leengate Valves is developing some own-branded products for the agriculture and drinking water markets.

Immunobiology Limited

Cambridge
www.immbio.com

Cost:	£1,932,000
Valuation:	£987,000
Date of initial investment:	June 2003
Equity held:	23.44%
Valuation basis:	Price of recent investment, reviewed for change in fair value and supporting third party investment

Year ended 31 May	**2013 £million**	2012 £million
Sales	–	–
LBITA	**(1.11)**	(1.34)
Loss before tax	**(1.10)**	(1.33)
Retained losses	**(8.96)**	(8.13)
Net assets/(liabilities)	**2.67**	(3.11)

Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and bacterial pneumonia. It is co-developing a TB vaccine in China and, separately, is seeking regulatory clearance to commence human trials for its pneumonia vaccine ahead of commencing phase 1 human trials during 2015.

Seven Technologies Holdings Limited

Belfast
www.seventechnologies.co.uk

Cost:	£1,238,000
Valuation:	£924,000
Date of initial investment:	April 2012
Equity held:	6.30%
Valuation basis:	Earnings multiple
Interest:	£nil (2013: £21,091)
Dividends:	£24,765 (2013: £17,847)

Period ended	**30 Sep 2013**	31 May 2013
	£million	£million
Sales	**3.94**	11.58
(LBITA)/EBITA	**(0.48)**	2.58
Loss before tax	**(1.52)**	(0.17)
Retained losses	**(1.75)**	(0.57)
Net assets	**18.65**	17.75

Seven Technologies is an engineering business specialising in the development and manufacture of bespoke electronics and communications applications for operation in inhospitable environments. The strategy is to grow average contract sizes and increase the company's international presence, helped by a strategic acquisition in 2013. Trading in 2014 was adversely impacted by a freeze on international defence budgets although this situation now appears to be easing in the US.

Macro Art Holdings Limited

Cambridgeshire
www.macroart.co.uk

Cost:	£819,000
Valuation:	£847,000
Date of initial investment:	June 2014
Equity held:	12.68%
Valuation basis:	Earnings multiple
Interest:	£21,836
Dividends:	£13,190

Year ended 30 November	**2013**
	£million
Sales	**6.65**
EBITA	**0.48**

Macro Art is a specialist wide-format digital printer, a niche service where there are only limited suppliers with specialist equipment and knowledge. High profile retail clients include Selfridges and Harrods. Significant recent investment in new dye sublimation technology has positioned the business well to expand its higher margin activities supporting exhibition displays and retail sector promotions.

Callstream Group Limited

Henley-in-Arden
www.callstream.com

Cost:	£329,000
Valuation:	£773,000
Date of initial investment:	September 2010
Equity held:	6.75%
Valuation basis:	Earnings multiple
Interest:	£15,578 (2013: £31,651)

Year ended 30 April	**2014**	2013
	£million	£million
Sales	**11.95**	13.31
EBITA	**2.41**	2.78
Profit before tax	**0.39**	0.78
Retained profits	**0.12**	0.10
Net assets	**5.03**	5.02

Callstream is a telecommunications service provider that aggregates a range of services including fixed line, mobile and data to UK businesses. The Company's initial investment in 2010 was to fund a consolidation strategy with two successful acquisitions completed. Since then a number of its smaller non-core contracts have been sold and the strategy refined to focus on selling niche value added products into targeted sectors. Strong cash generation has enabled all institutional loans to be repaid.

Intamac Systems Limited

Northampton
www.intamac.com

Cost:	£750,000
Valuation:	£750,000
Date of initial investment:	June 2014
Equity held:	11.90%
Valuation basis:	Cost, reviewed for change in fair value

Year ended 31 December	**2013 £million**
Sales	**2.53**
Loss before tax	**(1.59)**
Net liabilities	**(0.39)**

Intamac has developed a software platform used to connect physical products to the internet so they can be monitored and controlled via user applications on smart phones and tablet computers. Customers already include several blue chip names such as Scottish Power, Securitas, TDC and Belgacom. Intamac's strategy is to partner with established hardware suppliers and embed software into their next generation products to become a key enabler of the Internet-of-Things. A significant product launch by security device manufacturer Swann is planned with major US and UK retailers in the Spring.

Wakefield Acoustics (via Malvar Engineering Limited)

Cleckheaton
www.wakefieldacoustics.co.uk

Cost:	£720,000
Valuation:	£720,000
Date of initial investment:	December 2014
Equity held:	14.00%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£1,207
Dividends:	£1,811

Year ended 31 July	**2014 £million**
Sales	**3.71**
EBITA	**0.48**

Adjusted for deal-related costs and to reflect the ongoing cost structure following the acquisition.

Wakefield Acoustics is a specialist industrial acoustic engineering business, designing and installing a range of bespoke industrial and environmental noise control solutions. Customers include several blue chip engineering companies supplying globally into sectors such as power, oil and gas, water waste and general manufacturing. The strategy is to develop and broaden the product range, improve efficiencies by consolidating manufacturing facilities and deliver significant sales growth.

PowerOasis Limited

Swindon
www.power-oasis.com

Cost:	£594,000
Valuation:	£594,000
Date of initial investment:	November 2011
Equity held:	2.90%
Valuation basis:	Price of recent investment round reviewed for change in fair value

Year ended 31 January	**2014 £million**	2013 £million
Sales	**1.23**	1.09
LBITA	**(2.25)**	(2.88)
Loss before tax	**(2.25)**	(2.88)
Retained losses	**(9.19)**	(7.19)
Net assets	**2.04**	0.77

PowerOasis is a provider of power management solutions to the mobile telecommunications sector. Their power systems are installed at communication masts in remote international locations, often not connected to an electricity grid, facilitating significant cost savings by selectively switching between a range of alternative power sources. It is also believed that the core technology has significant potential value as a key enabler for a wide range of new Lithium-Ion battery applications.

Bagel Nash Group Limited

Leeds
www.bagelnash.com

Cost:	£732,000
Valuation:	£590,000
Date of initial investment:	July 2011
Equity held:	4.60%
Valuation basis:	Earnings multiple
Interest:	£69,030 (2013: £51,336)

Year ended 30 April	**2014 £million**	2013 £million
Sales	**6.10**	5.51
EBITA	**0.16**	0.43
Loss before tax	**(0.49)**	(0.28)
Retained losses	**(1.07)**	(0.57)
Net (liabilities) assets	**(0.14)**	0.16

Bagel Nash is an established operator of coffee and bagel bars in the north of England and also runs a bakery supplying products to retailers and wholesalers. Since the buy-in in July 2011 the team has completed a relocation of the bakery to increase capacity and attracted some significant new customers. Four new trial outlets have been opened and the retail model is being refined ahead of the planned rollout strategy.

Insider Technologies (Holdings) Limited

Manchester
www.insidertech.co.uk

Cost:	£780,000
Valuation:	£522,000
Date of initial investment:	August 2012
Equity held:	17.20%
Valuation basis:	Earnings multiple
Interest:	£58,680 (2013: £58,680)

Year ended 31 March	**2014 £million**	2013 £million
Sales	**2.24**	1.36
EBITA/(LBITA)	**0.08**	(0.01)
Loss before tax	**(0.40)**	(0.30)
Retained losses	**(1.15)**	(0.83)
Net (liabilities)/assets	**(0.15)**	0.17

Insider Technologies is an established provider of monitoring and scheduling software to the financial services and national security sectors. The strategy is to increase the sales focus and roll out existing and new complementary products in the UK and overseas. The management team was strengthened at the buyout with the chairman also investing significantly in the deal.

RISK FACTORS

The Board carries out a regular 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 September 2012. Details of the Company's internal controls are contained in the Corporate Governance and Internal Control sections on page 41 and further information on exposure to risks including those associated with financial instruments is given in note 17a of the financial statements.

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 pages 12 and 13.

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 9) and a diversified portfolio operating in a range of sectors. The Investment Adviser actively monitors investee performance which provides quality information for the monthly review 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.

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 which took effect from 22 July 2014. 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 consults with brokers, solicitors and external compliance advisers as appropriate. The key controls around regulatory compliance are explained on page 41.

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 advised by the Investment Adviser have been agreed between the Investment Adviser and the Company. Advice is sought from external advisers 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 disaster recovery plan.

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 page 41.

Market/Liquidity

Risk: Lack of liquidity in both the venture capital and public markets. Investment in AIM quoted and unquoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. The fact that a share is traded on AIM does not guarantee its liquidity. The spread between the buying and selling price of such shares may be wide and thus the price used for valuation may not be achievable. In addition, the market for stock in smaller companies is often less liquid than that for stock in larger companies, bringing with it potential difficulties in acquiring, valuing and disposing of such stock.

Mitigation: Overall liquidity risks are monitored on an ongoing basis by the Investment Adviser and on a quarterly basis by the Board. Sufficient investments in cash and fixed income securities are maintained to pay expenses as they fall due.

OTHER MATTERS

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. 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.

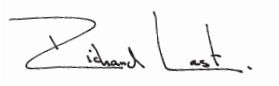
Anti-Bribery and Corruption Policy

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.

By Order of the Board



Richard Last
Chairman
26 March 2015

DIRECTORS

Name	Background and Experience

Richard Last Chairman

Richard Last (Chairman, appointed 16 November 2000) is a Fellow of the Institute of Chartered Accountants in England and Wales with substantial experience in the IT software and services sectors, and is chairman and non-executive director of Servelec Group plc, which is listed on the main market of the London Stock Exchange. He is also a chairman and non-executive director of Gamma Communications plc, Lighthouse Group plc and Arcontech Group plc and non-executive director of Corero Network Security plc, all AIM listed. In addition he is a director of a number of private companies including APD Communications Limited, Learn Solutions Limited, both of which he is chairman of, and Waste Management Solutions Limited.

Robert Martin Pettigrew

Robert Pettigrew (appointed 16 November 2000) has more than 20 years' experience in the development of emerging businesses and, in particular, the commercial exploitation of new technologies. He co-founded The Generics Group of companies (renamed Sagentia) in 1986, which is one of the country's leading technology consulting and investment groups and was a key member of the team that took the company public in December 2000. He retired from The Generics Group at the end of 2002 to pursue independent investment activities. He is currently an investor-director and non-executive chairman of Sunamp Limited and Odos Imaging Limited and non-executive director of Acal Energy Limited and Nightingale-EOS Limited.

Peter Charles Waller

Peter Waller (appointed 1 November 2010) is an experienced chairman and director with extensive UK and international executive experience in the IT technology, software and services sector. He initially worked with IBM and Hitachi then with Spring plc, at that time one of the UK's largest recruitment and training businesses. He is currently chairman of KeyPoint Technologies (UK) Limited, director and founder of Turnberry Management Company Limited and non-executive director of BCS Learning & Development Limited. For the past decade Peter has worked as a board member with a succession of early stage and early growth private and public companies. His particular skills are in sales and marketing and working with companies to develop successful sales growth strategies.

Secretary

The City Partnership (UK) Limited
Thistle House
21 Thistle Street
Edinburgh
EH2 1DF

Registered No: SC269164

Registered Office of the Company

5th Floor
Valiant Building
14 South Parade
Leeds
LS1 5QS

DIRECTORS' REPORT

For the year ended 31 December 2014

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc ("the Company") for the year ended 31 December 2014.

Principal Activity

The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of the registered office and principal place of business is 5th Floor, Valiant Building, 14 South Parade, Leeds, LS1 5QS.

The Company has its primary, and sole, listing on the London Stock Exchange.

The principal activity of the Company is the making of long term equity and loan investments, mainly in unquoted businesses.

The Company operates as a venture capital trust ("VCT") and has been approved by HM Revenue & Customs as an authorised venture capital trust under Chapter 3 Part 6 of the Income Tax Act 2007. It is the directors' intention to continue to manage the Company's affairs in such a manner as to comply with Chapter 3 Part 6 of the Income Tax Act 2007.

Business Performance and Future Prospects

A detailed and fair review of the Company's business, its development, its performance during and at the end of the financial year, and its future prospects is set out in the Strategic Report on pages 6 to 32. The principal risks and uncertainties the Company faces are detailed on pages 30 to 31.

Results and Dividends

The Statement of Comprehensive Income is set out on page 49. The profit before and after taxation for the year amounted to £1,157,000 (2013: £2,131,000 profit).

During the year the Company paid a total of £2,794,000 (2013:£2,083,000) worth of dividends totalling 4.5 pence per ordinary share. A detailed review can be found in note 5 on page 60.

The directors recommend the payment of a final dividend of 2.5 pence per ordinary share (2013: 2.5 pence). A resolution to this effect will be proposed at the Annual General Meeting to be held on 15 May 2015.

The net asset value per ordinary share at 31 December 2014 was 62.9 pence (2013: 65.6 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 51.

Going Concern

The Company's business activities, liquidity position and factors likely to affect its future development, performance and position are set out in the Strategic Report. In addition, notes 17 and 18 of the financial statements describe the Company's objectives, policies and processes for managing capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit and liquidity risk.

The Company has considerable financial resources, a carefully controlled cost base and investments across various industry sectors. The directors believe these factors have placed the Company in a strong position to take advantage of new investment opportunities despite the uncertain economic outlook and with this in mind have sought to further increase the investment capacity of the Company this year.

The directors have carefully considered the issue of going concern and are satisfied that the Company has sufficient resources to meet its obligations for the foreseeable future. The directors therefore believe that it is appropriate to continue to apply the going concern basis of accounting in preparing the Financial Statements.

Corporate Governance

The statement on corporate governance set out on pages 37 to 42 is included in the Directors' Report by reference.

Directors' and Officers' Liability Insurance

The Company has, as permitted by the Companies Act 2006, maintained insurance cover on behalf of the directors indemnifying them against certain liabilities which may be incurred by any of them in relation to the Company.

Provision of Information to the External Auditor

The directors confirm that so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and that each of the directors has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Share Capital

As shown in note 11 of the financial statements, the Company has only one class of share, being ordinary shares of 10 pence each.

Buy-Back and Issue of Ordinary Shares

In accordance with the Company's stated buy-back policy the Company purchased during the year (under the authority granted by the shareholders at the Annual General Meeting held on 19 May 2014) 132,300 ordinary shares of 10 pence each in the market (as disclosed in the table below) for aggregate consideration of £74,971. These shares are held in treasury.

Under the existing authority, which expires on 19 May 2016, the Company has the power to purchase shares up to 14.99 per cent of the Company's ordinary share capital as at 28 March 2014, being 6,961,890 ordinary shares.

During the year to 31 December 2014 a total of 16,245,613 ordinary shares were issued, of which 733,998 were issued under the Company's dividend re-investment scheme. Subsequent to the year end the Company allotted ordinary shares under the offer with British Smaller Companies VCT plc. Further details are given in note 11 on page 68.

The directors have unconditional authority to allot shares in the Company or to grant rights to subscribe for or to convert any security into ordinary shares in the Company until 18 May 2015 in connection with the following:

- the offers for subscription with British Smaller Companies VCT plc, up to an aggregate nominal amount of £3,000,000 (the "offers");
- an offer of shares by the way of a rights issue (a "rights issue"); and
- an allotment of shares for cash up to an aggregate nominal amount of 10 per cent of the issued ordinary share capital of the Company immediately following the final closing of the offers for subscription.

In addition, the directors have a separate unconditional authority to allot shares in the Company in connection with the Company's dividend re-investment scheme until 3 December 2019.

Cancellation of Share Premium Account

On 10 October 2014, the amount standing to the credit of the share premium account as at 30 May 2014 was cancelled pursuant to an order of the High Court. The credit arising of £13.55 million has been transferred to a special reserve, which shall be applied in any manner in which the Company's profits available for distribution are able to be applied.

Of the £13.55 million transferred to the special reserve, £12.21 million will be available for distribution following the filing of the annual report and accounts and £1.34 million will remain undistributable until 31 December 2017.

Capital Disclosures

The following information has been disclosed in accordance with Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended):

- the Company's capital structure is summarised in note 11 to the financial statements. Each ordinary share carries one vote. There are no restrictions on voting rights or any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- there are no securities carrying special rights with regard to the control of the Company;
- the Company does not have an employee share scheme;
- the rules concerning the appointment and replacement of directors, amendments to the Articles of Association and powers to issue or buy-back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- with the exception of the Investment Adviser's Incentive Agreement, there are no agreements to which the Company is party that take effect, alter or terminate upon a change in control following a takeover bid; and
- there are no agreements between the Company and its directors providing for compensation for loss of office that may occur because of a takeover bid.

Environment

The Company has no greenhouse gas emissions to report from the operations of the Company, nor does it have responsibility for any emissions producing sources including those within its underlying investment portfolio under Part 7 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

Directors and their Interests

The directors of the Company at 31 December 2014, their interests and contracts of significance are set out in the Directors' Remuneration Report on pages 43 to 45.

Substantial Shareholdings

The directors are not aware of any substantial shareholdings representing 3 per cent or more of the Company's issued share capital as at 31 December 2014 and the date of this report.

Independent Auditor

Grant Thornton UK LLP has indicated its willingness to continue in office and a resolution concerning its reappointment will be proposed at the Annual General Meeting.

Issue and Buy-Back of Shares

Date	Number of ordinary shares of 10 pence bought-back	Percentage of issued share capital at that date	Consideration paid per ordinary share (pence)
27 June 2014	63,196	0.1%	57.67
8 December 2014	69,104	0.1%	55.75

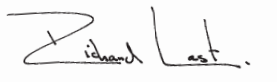
Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 74 to 78 of these financial statements.

The ordinary business of the meeting includes a resolution (Resolution 8) to be proposed to ensure the directors retain the authority to allot shares in the Company (other than pursuant to its DRIS) until the date of the 2016 Annual General Meeting in connection with the offers, a rights issue and for cash up to an aggregate nominal amount representing approximately 10 per cent of the issued ordinary share capital of the Company immediately following the final closing of the offers.

Also included is a Special resolution (Resolution 9) proposed to empower the directors to allot shares under the authority granted by Resolution 8 without regard to any rights of pre-emption on the part of the existing shareholders.

This report was approved by the Board on 26 March 2015 and signed on its behalf by



Richard Last
Chairman
British Smaller Companies VCT 2 plc.
Registered number 04084003

CORPORATE GOVERNANCE

The Board is committed to the principle and application of sound corporate governance and confirms that the Company has taken steps, appropriate to a venture capital trust and relevant to its size and operational complexity, to comply with the principles and recommendations of The Association of Investment Companies' Code of Corporate Governance issued in February 2013 ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") available on the AIC website www.theaic.co.uk.

The AIC Code as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council ("FRC"), as well as setting out additional principles and recommendations on issues which are of specific relevance to the Company.

The FRC confirmed in January 2013 that they consider the updated AIC Guide to be appropriate and that investment companies may report against the AIC Code.

The UK Corporate Governance Code can be found on the website of the Financial Reporting Council at www.frc.org.uk.

The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

The Company is committed to maintaining the highest standards of corporate governance and during the year to 31 December 2014 complied with the recommendations of the AIC Code and relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to the appointment of a chief executive and a recognised senior independent non-executive director, those relating to the establishment of an independent Remuneration Committee, the presumption concerning the Chairman's independence and the need for an internal audit function. For reasons set out in the AIC Guide, and in the preamble to the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of British Smaller Companies VCT2 plc, which is an externally advised venture capital trust. The Company has therefore not reported further in respect of these provisions.

In accordance with the UK Corporate Governance Code issued in September 2012 section C.3.1 the Board should establish an Audit Committee of at least three independent non-executive directors and the Chairman of the Company should not be chair of this Committee. The Company has not complied with this criteria as the chair of the Audit Committee is Mr R Last. Given the size and nature of the Company and the significant experience of Mr R Last at performing this duty it was felt that adequate controls were in place to ensure the Audit Committee remained independent.

Role of the Board

An investment advisory agreement between the Company and YFM Private Equity Limited sets out the matters over which the Investment Adviser has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objectives and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance risk control and custody arrangements.

The Board meets at least quarterly and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow directors to discharge their responsibilities.

There is an agreed procedure for directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every director has to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed. The Company indemnifies its directors and officers and has purchased insurance to cover its directors. Neither the insurance nor the indemnity provide cover if the director has acted fraudulently or dishonestly.

Board Composition

The Board consists of three non-executive directors, all of whom are regarded by the Board as independent and also as independent of the Company's Investment Adviser, including the Chairman. The independence of the Chairman was assessed upon his appointment. Although the UK Corporate Governance Code presumes that the chairman of a company is deemed not to be an independent director, the remaining directors, having considered the nature of the role in the Company, are satisfied that Mr R Last fulfils the criteria for independence as a non-executive director. The directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and provide a balance of power and authority including recent and relevant financial experience. Brief biographical details of each director are set out on page 33.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which are given below.

There are no executive officers of the Company. Given the structure of the Board and the fact that the Company's administration is conducted by YFM Private Equity Limited, the Company has not appointed a chief executive officer or a senior independent non-executive director. In addition, the directors consider that the role of a senior independent non-executive director is taken on by all of the directors. Shareholders are therefore able to approach any director with any queries they may have.

Boardroom Diversity

The Board is committed to ensuring that the Company is run in the most effective manner. Consequently the Board monitors the diversity of all directors to ensure an appropriate level of experience and qualification.

The Board believes in the value and importance of diversity in the boardroom but does not consider that it is appropriate or in the best interests of the Company and its shareholders to set prescriptive targets for gender or nationality on the Board.

Diversity of thought, experience and approach are all important and the directors will always seek to appoint on merit against objective criteria.

Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter, it is the Board's policy that a director's appointment will run for a term of one year until the next Annual General Meeting. Subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the director to seek a further term. The Board does not believe that length of service in itself necessarily disqualifies a director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of The UK Corporate Governance Code, including the need to refresh the Board and its Committees.

The Board seeks to maintain a balance of skills and the directors are satisfied that as currently composed the balance of experience and skills of the individual directors is appropriate for the Company, in particular with regards to investment appraisal and investment risk management.

The terms and conditions of directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting. There are no set minimum notice periods for Mr R Last or Mr R M Pettigrew, though Mr P C Waller's appointment is terminable by him or the Company on three months' notice.

The directors recommend the re-election of Mr P C Waller, Mr R M Pettigrew and Mr R Last at this year's Annual General Meeting, because of their commitment, experience and continued contribution to the Company.

Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Directors who are not members of Committees may attend at the invitation of the Chairman.

The table below details the number and function of the meetings attended by each director. There were no Nominations Committee meetings held in the year.

During the year there were sixteen formal Board meetings, three Audit Committee meetings, and eight Allotment Committee meetings. The directors met via telephone conferences on twelve other occasions.

Training and Appraisal

On appointment, the Investment Adviser and Company Secretary provide all directors with induction training. Thereafter, regular briefings are provided on changes in regulatory requirements that affect the Company and its directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to VCTs.

The performance of the Board has been evaluated in respect of the financial year ended 31 December 2014. The Board, led by the Chairman, has conducted a performance evaluation to determine whether it and individual directors are functioning effectively.

The factors taken into account were based on the relevant provisions of the UK Corporate Governance Code and included attendance and participation at Board and

Meetings Attended

Director	Mr R Last	Mr P C Waller	Mr R M Pettigrew	Total
Board meetings	16	16	16	16
Audit Committee	3	3	3	3
Allotment Committee	5	4	2	8
Telephone conferences	12	12	11	12
Total	**36**	**35**	**32**	**39**

Committee meetings, commitment to Board activities and the effectiveness of their contribution. The results of the overall evaluation process are communicated to the Board. Performance evaluation continues to be conducted on an annual basis.

The Chairman has confirmed that the performance of the other directors being proposed for re-election continues to be effective and that they continue to show commitment to the role. The independent directors have similarly appraised the performance of the Chairman. They considered that the performance of Mr R Last continues to be effective and that he continues to demonstrate a strong commitment to the role.

Remuneration Committee

Due to the size of the Board and the remuneration procedures currently in place, in the directors' opinion, there is no role for an independent Remuneration Committee. The Directors' Remuneration Report may be found on pages 43 to 45.

Audit Committee

The Audit Committee consists of Mr R Last, Mr R M Pettigrew and Mr P C Waller and meets at least three times each year. The directors consider that it is appropriate that the Chairman of the Committee should be Mr R Last. The members of the Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee, and that the Chair of the Committee meets the requirements of the UK Corporate Governance Code as to recent and relevant financial experience.

The Audit Committee's terms of reference include the following roles and responsibilities:

- monitoring and making recommendations to the Board in relation to the Company's published financial statements (including in relation to the valuation of the Company's unquoted investments) and other formal announcements relating to the Company's financial performance;
- monitoring and making recommendations to the Board in relation to the Company's internal control (including internal financial control) and risk management systems;
- annually considering the need for an internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- monitoring the extent to which the external auditor is engaged to supply non-audit services; and
- ensuring that the Investment Adviser has arrangements in place for the investigation and follow-up of any concerns raised confidentially by staff in relation to the propriety of financial reporting or other matters.

It reviews the terms of the investment advisory agreement and examines the effectiveness of the Company's internal control and risk management systems, receives information from the Investment Adviser's compliance department and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditor.

The directors' statement on the Company's system of internal control is set out on page 41.

The Audit Committee has written terms of reference which define clearly its responsibilities, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting, and also on the Company's website at www.bscfunds.com.

The Company does not have an independent internal audit function as it is not deemed appropriate given the size of the Company and the nature of the Company's business. However the Committee considers annually whether there is a need for such a function and if so would recommend this to the Board.

During the year ended 31 December 2014 the Audit Committee discharged its responsibilities by:

- reviewing and approving the external auditor's terms of engagement, remuneration and independence;
- reviewing the external auditor's plan for the audit of the Company's financial statements, including identification of key risks;
- reviewing YFM Private Equity Limited's statement of internal controls operated in relation to the Company's business and assessing the effectiveness of those controls in minimising the impact of key risks;
- reviewing reports on the effectiveness of YFM Private Equity Limited's compliance procedures;
- reviewing the appropriateness of the Company's accounting policies;
- reviewing the Company's draft annual financial statements, half yearly results statement and interim management statements prior to Board approval, including the proposed fair value of investments as determined by the directors;
- reviewing the external auditor's detailed reports to the Committee on the annual financial statements; and
- recommending to the Board and shareholders the re-appointment of Grant Thornton UK LLP as the Company's external auditor.

The key areas of risk that have been identified and considered by the Audit Committee in relation to the business activities and financial statements of the Company are as follows:

- valuation of unquoted investments; and
- compliance with HM Revenue & Customs conditions for maintenance of approved venture capital trust status.

These issues were discussed with the Investment Adviser and the auditor at the pre-year end audit planning meeting and at the conclusion of the audit of the financial statements.

Valuation of unquoted investments:

The Audit Committee reviewed the estimates and judgements made in the investment valuations and was satisfied that they were appropriate. The Investment Adviser and the auditor confirmed to the Audit Committee that the investment valuations had been carried out consistently with prior periods and in accordance with the published industry guidelines, taking account of the latest available information about investee companies and current market data.

Venture capital trust status:

The Investment Adviser confirmed to the Audit Committee that the conditions for maintaining the Company's status as an approved venture capital trust had been complied with throughout the year. The position was also reviewed by the Company's advisers.

The Investment Adviser confirmed to the Audit Committee that it was not aware of any material unadjusted misstatements. Having reviewed the reports received from the Investment Adviser and the auditor, the Audit Committee is satisfied that the key areas of risk and judgement have been appropriately addressed in the financial statements and that the significant assumptions used in determining the value of assets and liabilities and revenue recognition have been properly appraised and are sufficiently robust. The Committee considers that Grant Thornton UK LLP has carried out its duties as auditor in a diligent and professional manner.

As part of the review of audit effectiveness and independence, Grant Thornton UK LLP has confirmed that it is independent of the Company and has complied with applicable auditing standards. Grant Thornton UK LLP has held office for six years; in accordance with professional guidelines the engagement partner is rotated after at most five years, and the current partner has served for four years.

Having completed its review the Audit Committee is satisfied that Grant Thornton UK LLP remained effective and independent in carrying out its responsibilities up to the date of signing this report. No non-audit services were provided by Grant Thornton UK LLP during the year.

Nominations Committee

The Company has a Nominations Committee which consists of Mr R Last, Mr R M Pettigrew and Mr P C Waller, all of whom who are considered by the Board to be independent of the Investment Adviser. The Chairman of the Board acts as Chairman of the Committee.

In considering appointments to the Board, the Nominations Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

Meetings are held as and when required. There were no Nominations Committee meetings during the year.

Investment Committee

The Board has determined that due to the investment procedures currently in place, in its opinion there is no role for an independent Investment Committee.

Allotment Committee

The Company has an Allotment Committee which consists of the directors who are considered by the Board to be independent of the Investment Adviser. The quorum for Committee meetings is one director, unless otherwise determined by the Board. In addition the Company Secretary has an authority to allot shares under the DRIS.

The Committee considers and, if appropriate, authorises the allotment of shares. The Committee ensures that the total number of shares to be issued does not exceed the authority given by the shareholders. There are no written terms of reference.

Relations with Shareholders

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance, and reports formally to shareholders twice a year by way of the annual report and the interim report. This is supplemented by the daily publication of the Company's share price and the publication for the two quarters of the year where an annual or interim report is not issued (31 March and 30 September), through the London Stock Exchange, of the net asset value of the Company together with a factsheet detailing developments for the Company in that quarter.

All shareholders have the opportunity, and are encouraged, to attend the Company's Annual General Meeting at which the directors and representatives of the Investment Adviser are available in person to meet with and answer shareholders' questions. In addition representatives of the Investment Adviser periodically hold shareholder workshops which review the Company's performance and industry developments, and which give shareholders a further opportunity to meet members of the Board and chief executives or chairmen of some of the investee companies. During the year the Company's Investment Adviser has held regular discussions with shareholders. The directors are made fully aware of shareholders' views. The Chairman and directors make themselves available, as and when required, to address shareholder queries. The directors may be contacted through the Company Secretary whose details are shown on page 79.

The Company's annual report is published in time to give shareholders at least 21 clear days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Secretary at the address shown on page 79. Separate resolutions are proposed for each separate issue. Proxy votes will be counted and the results announced at the Annual General Meeting for and against each resolution.

Internal Control and Risk Management

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 and 17 October 2014 certain functions of the Company have been sub-contracted to YFM Private Equity Limited. The Board receives operational and financial reports on the current state of the business and on appropriate strategic, financial, operational and compliance issues. These matters include, but are not limited to:

- a clearly defined investment strategy for the Investment Adviser to the Company;
- all decisions concerning the acquisition or disposal of investments are taken by the Board after due consideration of the recommendations made by the Investment Adviser;
- regular reviews of the Company's investments, liquid assets and liabilities, revenue and expenditure;
- regular reviews of compliance with the VCT regulations to retain status; and
- the Board receives copies of the Company's management accounts on a regular basis showing comparisons with budget. These include a report by the Investment Adviser with a review of performance. Additional information is supplied on request.

The Board confirms the procedures to implement the guidance detailed in section C.2: "Risk Management & Internal Control" of the UK Corporate Governance Code and those identified in the Principles 13 and 15 of the AIC Code were in place throughout the year ended 31 December 2014 and up to the date of this report. A detailed review of the risks faced by the Company and the techniques used to mitigate these risks can be found in the Strategic Report on pages 30 and 31.

The Board acknowledges that it is responsible for overseeing the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board arranges its meeting agenda so that risk management and internal control is considered on a regular basis and a full risk and control assessment takes place no less frequently than twice a year. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for longer than the year under review and up to the date of approval of the annual report. The process is formally reviewed bi-annually by the Board. However, due to the size and nature of the Company, the Board has concluded that it is not necessary at this stage to set up an internal audit function. This decision will be kept under review. The directors are satisfied that the systems of risk management that they have introduced are sufficient to comply with the terms of the Turnbull Guidance (being the Internal Control: Guidance for Directors on the Combined Code 2005).

In particular the Board, together with the Audit Committee, is responsible for overseeing and reviewing internal controls concerning financial reporting. In addition to those controls sub-contracted as listed above the following controls have been in place throughout the year:

- a robust system of internal control is maintained by the Investment Adviser over the preparation and reconciliation of investment portfolio valuations;
- monthly reconciliation of assets held as fixed income securities and cash;
- independent review of the valuations of portfolio investments by the Board (quarterly);
- the Audit Committee review of financial reporting and compliance (as set out on pages 39 to 40);
- the Board reviews financial information including the annual report, interim report and interim management statements prior to their external communication; and
- the Board reviews the financial information in any prospectus issued by the Company in connection with the issue of new share capital.

Following the FCA's registration of the Company as a Small Registered Alternative Investment Fund Manager the Company holds its own investments. All investments made for the accounts of and monies received for the Company will be deposited in the name of the Company or will be held by a custodian or the Company's solicitors. All certificates and other documents evidencing title (whether or not in registered form) will be received by the Company and will be held in the Company's name or forwarded directly to the custodian or the Company's solicitors. No third party custodian has been appointed. The Company will take legal ownership of its assets.

The Board has reviewed the effectiveness of the Company's systems of internal control and risk management for the year and up to the date of this Report. The Board is of the opinion that the Company's systems of internal, financial, and other controls are appropriate to the nature of its business activities and methods of operation given the size of the Company.

Conflicts of Interest

The directors have declared any conflicts or potential conflicts of interest to the Board which has the authority to authorise such situations if appropriate. The Company Secretary maintains the Register of Directors' Interests which is reviewed quarterly by the Board, when changes are notified, and the directors advise the Company Secretary and the Board as soon as they become aware of any conflicts of interest. Directors who have conflicts of interest which have been approved by the Board do not take part in discussions or decisions which relate to any of their conflicts. Details of all Related Party Transactions are shown in note 15 on page 69.

Corporate Governance in Relation to Investee Companies

The Company delegates responsibility for monitoring its investments to its Investment Adviser whose policy, which has been noted by the Board, is as follows:

YFM Private Equity Limited is committed to introducing corporate governance standards into the companies in which its clients invest. With this in mind, the Company's investment agreements contain contractual terms specifying the required frequency of management board meetings and of annual shareholders' meetings, and for representation at such meetings through YFM Private Equity Limited. In addition, provision is made for the preparation of regular and timely management information to facilitate the monitoring of an investee company performance in accordance with best practice in the private equity sector.

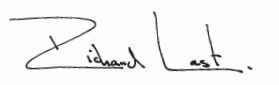
Co-Investment

Typically the Company invests alongside other venture capital funds, such syndication spreading investment risk. Details of the amounts invested in individual companies are set out in the Strategic Report. Co-investments are detailed in note 7 to the financial statements on page 66.

Management

The Board has delegated the management of the investment portfolio to the Investment Adviser.

This report was approved by the Board on 26 March 2015 and signed on its behalf by



Richard Last
Chairman
British Smaller Companies VCT2 plc.
Registered number 04084003

DIRECTORS' REMUNERATION REPORT

The Board has prepared this report in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution for the approval of this report will be put to the members at the forthcoming Annual General Meeting.

The law requires the Company's auditor, Grant Thornton UK LLP, to audit certain information included in this report. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in the Independent Auditor's Report on pages 47 to 48.

Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting held on 19 May 2014. A resolution to approve the Directors' Remuneration Policy will be put to shareholders every three years.

The Board currently comprises three directors, all of whom are non-executive. The Board does not have a separate Remuneration Committee due to the size of the Board and the remuneration procedures currently in place. In the directors' opinion and under the Listing Rules, there is no requirement for an independent Remuneration Committee.

The Board has not retained external advisers in relation to remuneration matters but has access to information about directors' fees paid by other companies of a similar size and nature. Shareholders' views in respect of the directors' remuneration are communicated at the Company's AGM and are taken into consideration in formulating the Directors' Remuneration Policy.

The Board's policy is that the remuneration of non-executive directors should reflect the experience of the Board as a whole, to be fair and comparable to that of other relevant venture capital trusts that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the directors needed to oversee properly the Company and to reflect the duties and responsibilities of the directors and the value and amount of time committed to the Company's affairs.

It is not considered appropriate that directors' remuneration should be performance-related, and as such the directors are not eligible for bonuses, share options, pension benefits, long-term incentive schemes or other benefits in respect of their services as non-executive directors of the Company.

It is the Board's policy that directors do not have service contracts, but new directors are provided with a letter of appointment. The terms of directors' appointments provide that directors should retire and be subject to election at the first Annual General Meeting after their appointment.

Thereafter, it has been agreed that all directors will offer themselves for re-election on an annual basis. There is no notice period, and any director who ceases to hold office is not entitled to receive any payment other than accrued fees (if any) for past services. There were no payments for loss of office made during the period.

Brief biographical notes on the directors are given on page 33.

Statement by the Chairman of the Nominations Committee

The directors' fees payable by the Company have been fixed at £31,500 per annum for the Chairman and £18,000 per annum for the other directors. In accordance with the Directors' Remuneration Policy the directors' fees were reviewed in 2014 by the Board who agreed that the fees should be held constant and reviewed again in a year's time.

Total fees paid (audited)

Table A

	2014 £	2013 £
R Last	**31,500**	31,500
R M Pettigrew	**18,000**	18,000
P C Waller	**18,000**	18,000
	67,500	67,500

Directors and their Interests

Table B

	Number of ordinary shares at		% voting rights at	
	31 December 2014	31 December 2013	**31 December 2014**	31 December 2013
R Last	**126,882**	120,912	**0.20%**	0.26%
R M Pettigrew	**58,759**	54,292	**0.09%**	0.12%
P C Waller	**25,979**	17,111	**0.04%**	0.04%

Shares subscribed for since Year End

Table C

	Number of ordinary shares
R Last	7,750
R M Pettigrew	21,574
P C Waller	9,581

Directors' Remuneration for the Year Ended 31 December 2014 (Audited)

The directors who served in the year received emoluments in the form of fees, which represent the entire remuneration payable to directors (see Table A).

There are no executive directors (2013: none).

Directors and their Interests (Audited)

The directors of the Company at 31 December 2014 and their beneficial interests in the share capital of the Company (including those of immediate family members) are shown in Table B.

None of the directors held any options to acquire additional shares at the year end.

In addition to the above, the directors have since the year end subscribed for new ordinary shares under the current offers for subscription, which were or will be allotted as shown in Table C.

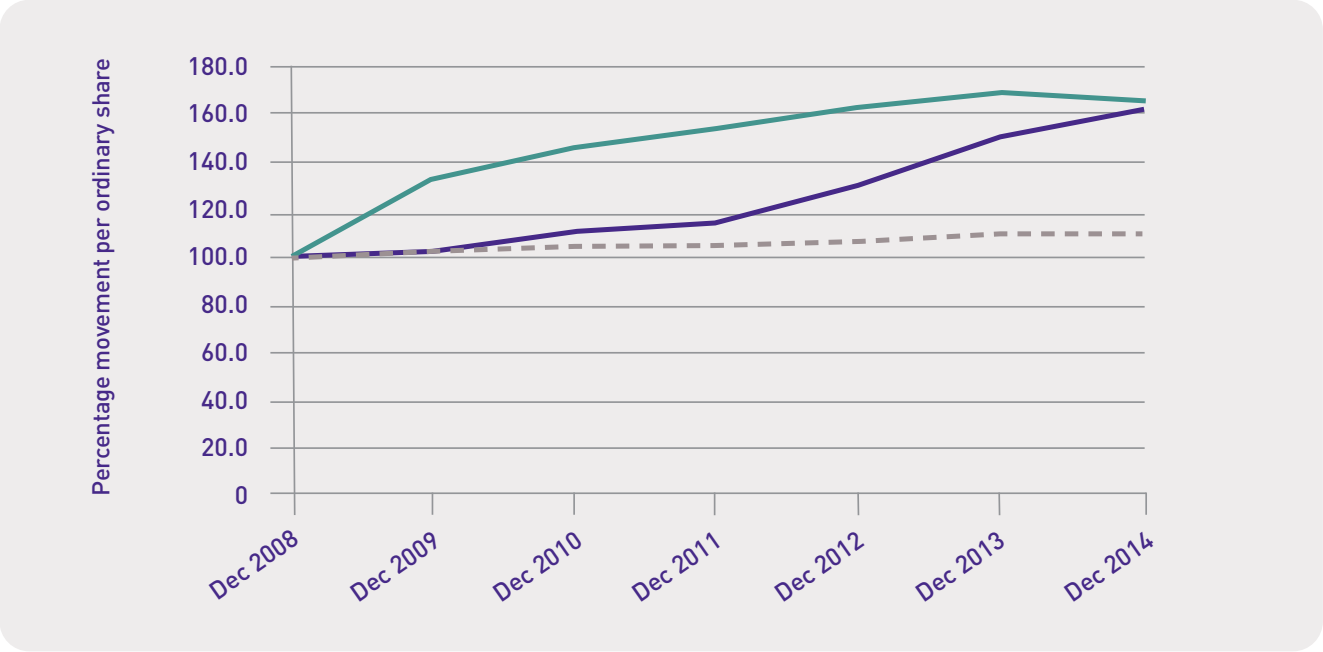
The Company has not set out any formal requirement or guidelines concerning their ownership of shares in the Company.

Relative Importance of Spend on Pay

As the Company has no employees, the directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

Consideration of Employment Conditions of Non-Director Employees

The Company does not have any employees. Accordingly, the disclosures required under paragraph 38 and 39 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 are not required.



VCT Generalist Share Price Total Return — BSC2 Share Price Total Return — BSC2 Net Asset Value Total Return

Company Performance

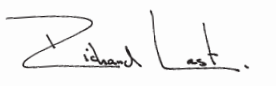
The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Adviser through the advisory agreement, as referred to in the Directors' Report.

Net asset value total return (calculated by reference to the net asset value and cumulative dividends paid, as set out in note 13 of these financial statements and excluding tax reliefs received by shareholders) is the primary recognised measure of performance in the VCT industry. This measure is discussed on page 11.

The graph above shows a comparison over the last six years of the movements in both the Company's share price total return and the share price total return for approximately 60 Generalist VCTs as published by The AIC. In line with the AIC index all the relative performance measures have been rebased to 100 as at December 2008. The directors consider this to be the most appropriate published index on which to report on comparative performance.

Changes in the Company's net asset value total return are included on the graph as the Board believes this reflects the return to shareholders not participating in the DRIS.

This report was approved by the Board and signed on its behalf on 26 March 2015.



Richard Last
Chairman

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

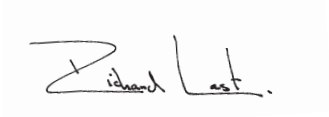
The directors confirm to the best of their knowledge:

- 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 33.

For and on behalf of the Board

This statement was approved by the Board and signed on its behalf on 26 March 2015.



Richard Last
Chairman

INDEPENDENT AUDITOR'S REPORT

To the members of British Smaller Companies VCT2 plc

Our Opinion on the Financial Statements is Unmodified

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have Audited

British Smaller Companies VCT2 plc's financial statements comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Our Assessment of Risk

In arriving at our opinions set out in this report, we highlight the following risks that are, in our judgement, likely to be most important to users' understanding of our audit.

Valuation of unquoted investments

The risk: Investments are the largest asset, in terms of value, in the financial statements, and they are designated as being at fair value through profit or loss in accordance with International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement", with the profits and gains in investments held at fair value being significant and material amounts in the Statement of Comprehensive Income. Measurement of the value of unquoted investments includes significant assumptions and judgements. We therefore identified the valuation of unquoted investments as a significant risk requiring special audit consideration.

Our response: Our audit work included, but was not restricted to:

- documenting and assessing the design effectiveness of controls within the investment valuation process;
- assessment of investment realisations in the period, comparing actual sales proceeds to prior year end valuations to understand the reason for significant variances;
- testing of assumptions and judgements made by the Investment Adviser in line with its in-house valuation policy; supported by review performed by our valuation specialists;
- challenging the Investment Adviser on key judgements affecting valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. In particular, we challenged the appropriateness of the valuation basis selected as well as underlying assumptions. Such assumptions included multiple considerations, multiple discounts and marketability discounts; and
- comparing key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable.

The Company's accounting policy on the valuation of unquoted investments is included in note 1 and its disclosures about unquoted investments held at the year end are included in note 7. The Audit Committee also identified valuation of unquoted investments as a key area of risk as set out in the report on page 39.

Our Application of Materiality and an Overview of the Scope of our Audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We determined materiality for the audit of the financial statements as a whole to be £198,000, which is 0.5 per cent of the Company's total assets. This benchmark is considered the most appropriate because the key driver of the Company is to maximise total assets. We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75 per cent of financial statement materiality for the audit of the financial statements.

For the Statement of Comprehensive Income we determined that misstatements of lesser amounts than materiality for the financial statements as a whole would make it probable that the judgement of a reasonable person, relying on the information would have been changed or influenced by the misstatement or omission. Accordingly, we established materiality for the Statement of Comprehensive Income to be £58,000. We also determined a lower level of specific materiality for certain other areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £9,900. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Company's business and is risk-based. The day to day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to the Company's Investment Adviser as a third-party service provider. Accordingly, our audit work is focused on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service provider, and inspecting records and documents held by the third-party service provider. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the design effectiveness of controls over individual systems and the management of specific risks.

Other Reporting Required by Regulations

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 34, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

Responsibilities for the Financial Statements and the Audit

What an audit of financial statements involves:

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

What the directors are responsible for:

As explained more fully in the Directors' Responsibilities Statement set out on page 46, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Who we are reporting to:

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Houghton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP,
Statutory Auditor,
Chartered Accountants,
Sheffield
26 March 2015

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 Revenue £000	2014 Capital £000	2014 Total £000	2013 Revenue £000	2013 Capital £000	2013 Total £000
Gain on disposal of investments	7	**–**	**870**	**870**	–	596	596
Gains on investments held at fair value	7	**–**	**111**	**111**	–	1,748	1,748
Income	2	**1,272**	**–**	**1,272**	689	–	689
Administrative expenses:							
Investment Adviser's fee		**(173)**	**(521)**	**(694)**	(141)	(421)	(562)
Other expenses		**(402)**	**–**	**(402)**	(340)	–	(340)
	3	**(575)**	**(521)**	**(1,096)**	(481)	(421)	(902)
Profit before taxation		**697**	**460**	**1,157**	208	1,923	2,131
Taxation	4	**(7)**	**7**	**–**	–	–	–
Profit for the year		**690**	**467**	**1,157**	208	1,923	2,131
Total comprehensive income for the year		**690**	**467**	**1,157**	208	1,923	2,131
Basic and diluted earnings per ordinary share	6	**1.19p**	**0.81p**	**2.00p**	0.46p	4.27p	4.73p

The accompanying notes on pages 54 to 73 are an integral part of these financial statements.

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' ('SORP') 2009 published by The AIC.

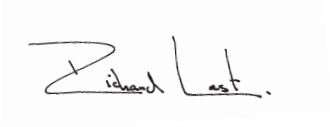
BALANCE SHEET

At 31 December 2014

	Notes	2014 £000	2013 £000
Assets			
Non-current assets			
Investments		**28,216**	16,255
Fixed income securities		**–**	890
Financial assets at fair value through profit or loss	7	**28,216**	17,145
Trade and other receivables	8	**417**	132
		28,633	17,277
Current assets			
Trade and other receivables	8	**314**	123
Cash on fixed term deposit		**–**	4,500
Cash and cash equivalents	9	**10,633**	8,680
		10,947	13,303
Liabilities			
Current liabilities			
Trade and other payables	10	**(247)**	(122)
Net current assets		**10,700**	13,181
Net assets		**39,333**	30,458
Shareholders' equity			
Share capital	11	**6,447**	4,822
Share premium account		**342**	4,926
Capital redemption reserve		**88**	88
Other reserve		**2**	2
Merger reserve		**5,525**	5,525
Capital reserve		**24,822**	14,568
Investment holding gains and losses		**1,507**	448
Revenue reserve		**600**	79
Total shareholders' equity		**39,333**	30,458
Net asset value per ordinary share	12	**62.9p**	65.6p

The accompanying notes on pages 54 to 73 are an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board of directors and were signed on its behalf on 26 March 2015.



Richard Last
Chairman

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital £000	Share premium account £000	Other reserves[1] £000	Merger reserve £000	Capital reserve £000	Investment holding gain (losses) £000	Revenue reserve £000	Total equity £000
Balance at 31 December 2012	**4,271**	**14,806**	**90**	**5,525**	**7,225**	**(4,919)**	**154**	**27,152**
Revenue return for the year	*–*	*–*	*–*	*–*	*–*	*–*	*208*	*208*
Capital expenses	*–*	*–*	*–*	*–*	*(421)*	*–*	*–*	*(421)*
Investment holding gain on investments held at fair value	*–*	*–*	*–*	*–*	*–*	*1,748*	*–*	*1,748*
Realisation of investments in the year	*–*	*–*	*–*	*–*	*596*	*–*	*–*	*596*
Total comprehensive income for the year	–	–	–	–	175	1,748	208	2,131
Issue of share capital	*504*	*2,964*	*–*	*–*	*–*	*–*	*–*	*3,468*
Issue costs[2]	*–*	*(178)*	*–*	*–*	*–*	*–*	*–*	*(178)*
Purchase of own shares	*–*	*–*	*–*	*–*	*(309)*	*–*	*–*	*(309)*
Issue of shares – DRIS	*47*	*239*	*–*	*–*	*–*	*–*	*–*	*286*
Dividends	*–*	*–*	*–*	*–*	*(1,800)*	*–*	*(283)*	*(2,083)*
Cancellation of share premium account – net of costs	*–*	*(12,905)*	*–*	*–*	*12,896*	*–*	*–*	*(9)*
Total transactions with owners	551	(9,880)	–	–	10,787	–	(283)	1,175
Realisation of negative goodwill	–	–	–	–	177	(177)	–	–
Realisation of prior year investment holding gains	–	–	–	–	(3,796)	3,796	–	–
Balance at 31 December 2013	**4,822**	**4,926**	**90**	**5,525**	**14,568**	**448**	**79**	**30,458**
Revenue return for the year	*–*	*–*	*–*	*–*	*–*	*–*	*690*	*690*
Capital expenses	*–*	*–*	*–*	*–*	*(514)*	*–*	*–*	*(514)*
Investment holding gain on investments held at fair value	*–*	*–*	*–*	*–*	*–*	*111*	*–*	*111*
Realisation of investments in the year	*–*	*–*	*–*	*–*	*870*	*–*	*–*	*870*
Total comprehensive income for the year	–	–	–	–	356	111	690	1,157
Issue of share capital	*1,551*	*9,200*	*–*	*–*	*–*	*–*	*–*	*10,751*
Issue costs[2]	*–*	*(591)*	*–*	*–*	*–*	*–*	*–*	*(591)*
Purchase of own shares	*–*	*–*	*–*	*–*	*(75)*	*–*	*–*	*(75)*
Issue of shares – DRIS	*74*	*362*	*–*	*–*	*–*	*–*	*–*	*436*
Dividends	*–*	*–*	*–*	*–*	*(2,625)*	*–*	*(169)*	*(2,794)*
Cancellation of share premium account – net of costs	*–*	*(13,555)*	*–*	*–*	*13,546*	*–*	*–*	*(9)*
Total transactions with owners	1,625	(4,584)	–	–	10,846	–	(169)	7,718
Realisation of negative goodwill	–	–	–	–	13	(13)	–	–
Realisation of prior year investment holding gains	–	–	–	–	(961)	961	–	–
Balance at 31 December 2014	**6,447**	**342**	**90**	**5,525**	**24,822**	**1,507**	**600**	**39,333**

Statement of Changes in Equity (continued)
for the year ended 31 December 2014

	Share capital £000	Share premium account £000	Other reserves[1] £000	Merger reserve £000	Capital reserve £000	Investment holding gain (losses) £000	Revenue reserve £000	Total equity £000
Reserves on page 51	**6,447**	**342**	**90**	**5,525**	**24,822**	**1,507**	**600**	**39,333**
Less undistributable reserves	*(6,447)*	*(342)*	*(90)*	*(5,525)*	*(1,343)*	*(1,507)*	*–*	*(15,254)*
Less interest not yet distributable	*–*	*–*	*–*	*–*		*–*	*(332)*	*(332)*
Less deferred proceeds	*–*	*–*	*–*	*–*	*(85)*	*–*	*–*	*(85)*
Reserves available for distribution[3]	**–**	**–**	**–**	**–**	**23,394**	**–**	**268**	**23,622**

The accompanying notes on pages 54 to 73 are an integral part of these financial statements.

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

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 primarily distributable reserves. The reserves total £25,422,000 (2013: £14,647,000) representing an increase of £10,775,000 (2013: £7,268,000 increase) during the year. This change arises from the profit in the year of £1,046,000 (2013: £383,000), a transfer of valuation losses from the investment holding reserve of £961,000 (2013: £3,796,000), dividends of £2,794,000 (2013: £2,083,000), purchase of shares of £75,000 (2013: £309,000), realisation of negative goodwill of £13,000 (2013: £177,000) and the cancellation of the Company's share premium account of £13,546,000 (2013: £12,896,000). An analysis of the distributable elements of these reserves is given in the table above. The directors also take into account the level of the investment holding gains (losses) reserve and the future requirements of the Company when determining the level of dividend payments.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Net cash outflow from operating activities		**(293)**	(79)
Cash flows (used in) from investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(14,071)**	(5,499)
Proceeds from sale of financial assets at fair value through profit or loss	7	**3,679**	2,926
Deferred consideration	7	**345**	125
Cash placed on fixed term deposit		**–**	(4,500)
Cash maturing from fixed term deposits		**4,500**	7,048
Net cash (outflow) inflow from investing activities		**(5,547)**	100
Cash flows from (used in) financing activities			
Issue of ordinary shares		**10,510**	3,412
Costs of ordinary share issues*		**(350)**	(122)
Purchase of own ordinary shares		**(75)**	(309)
Dividends paid – net of dividends re-invested		**(2,283)**	(1,797)
Share premium cancellation cost		**(9)**	(9)
Net cash inflow from financing activities		**7,793**	1,175
Net increase in cash and cash equivalents		**1,953**	1,196
Cash and cash equivalents at the beginning of the year		**8,680**	7,484
Cash and cash equivalents at the end of the year	9	**10,633**	8,680

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

Reconciliation of Profit Before Taxation to Net Cash Outflow from Operating Activities

	2014 £000	2013 £000
Profit before taxation	**1,157**	2,131
Increase (decrease) in trade and other payables	**50**	(154)
(Increase) decrease in trade and other receivables	**(511)**	300
Gains on disposal of investments in the year	**(870)**	(596)
Profit on investments held at fair value	**(111)**	(1,748)
Capitalised interest	**(8)**	(12)
Net cash outflow from operating activities	**(293)**	(79)

The accompanying notes on pages 54 to 73 are an integral part of these 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 in January 2009 (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. The standards and interpretations applicable for the first time that have been adopted are IFRS 10, 11, and 12, and amendments to IAS 27, 28, 32 and 36. There has been no material impact on the financial statements.

Other 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 amendments to IFRS 9, 10, 11, 14 and 15, and amendments to IAS 16, 27, 28 and 38, together with the SORP issued in November 2014. A full impact assessment has not yet been completed in order to assess whether these new standards will have a material impact on the financial statements.

Financial Assets held at Fair Value through Profit or Loss

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with the documented investment strategy of the Company. Information about these financial assets is provided internally on a fair value basis to the Company's key management. The Company's investment strategy is to invest cash resources in venture capital investments as part of the Company's long-term capital growth strategy. Consequently, all investments are classified as held at fair value through profit or loss.

All investments are measured at fair value with gains and losses arising from changes in fair value being included in the Statement of Comprehensive Income as gains or losses on investments held at fair value.

Transaction costs on purchases are expensed immediately through profit or loss.

Redemption premiums are accrued daily on an effective rate basis and included within the capital valuation of the investment (and thus classified under "Gain or loss on investments held at fair value" in the Statement of Comprehensive Income).

Although the Company holds more than 20 per cent of the equity of certain companies, it is considered that the investments are held as part of the investment portfolio, and their value to the Company lies in their marketable value as part of that portfolio, so none represent investments in associated undertakings. These investments are therefore not accounted for using equity accounting, as required by IAS 28 'Investments in associates' and IAS 31 'Financial reporting of interest in joint ventures', which give exemptions from equity accounting for venture capital organisations.

Under IAS 27 "Consolidated and separate financial statements" control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power by a number of means. The Company does not hold more than 50 per cent of the equity of any of the companies within the portfolio. In addition, the Company does not control any of the companies held as part of the investment portfolio. It is not considered that any of the holdings represent investments in subsidiary undertakings.

1. Principal Accounting Policies (continued)

Valuation of Investments

Unquoted investments are valued in accordance with IAS 39 'Financial instruments: Recognition and Measurement' and, where appropriate, the International Private Equity and Venture Capital Valuation Guidelines (the "IPEVC Guidelines") issued in December 2012. Quoted investments are valued at market bid prices. A detailed explanation of the valuation policies of the Company is included below.

Initial Measurement

Financial assets are initially measured at fair value. The best estimate of the initial fair value of a financial asset that is either quoted or not quoted in an active market is the transaction price (i.e. cost).

Subsequent Measurement

The Guidelines identify six of the most widely used valuation methodologies for unquoted investments. The Guidelines advocate that the best valuation methodologies are those that draw on external, objective market based data in order to derive a fair value.

Unquoted Investments

- **Price of recent investment, reviewed for change in fair value.** This represents the cost of the investment or the price at which a significant amount of new investment has been made by an independent third party adjusted, if necessary, for factors relevant to the background of the specific investment. The value of the investment is assessed for changes or events that would imply either a reduction or increase to its fair value through comparison of financial, technical and marketing milestones set at the time of investment. Where it is considered that the fair value no longer approximates to the cost of the recent investment an estimated adjustment to the cost, based on objective data, will be made to the investment's carrying value.

- **Earnings multiple.** A multiple that is appropriate and reasonable, given the risk profile and earnings growth prospects of the underlying company, is applied to the maintainable earnings of that company. The multiple is adjusted to reflect any risk associated with lack of marketability and to take account of the differences between the investee company and the benchmark company or companies.

- **Net assets.** The value of the business is derived by using appropriate measures to value the assets and liabilities of the investee company.

- **Discounted cash flows of the underlying business.** The present value of the underlying business is derived by using reasonable assumptions and estimations of expected future cash flows and the terminal value, and discounted by applying the appropriate risk-adjusted rate that quantifies the risk inherent in the company.

- **Discounted cash flows from the investment.** Under this method, the discounted cash flow concept is applied to the expected cash flows from the investment itself rather than the underlying business as a whole.

- **Sales multiples and industry valuation benchmarks.** Where appropriate comparator companies can be identified, multiples of revenues may be used as a valuation benchmark.

Discounted cash flows and industry valuation benchmarks are only likely to be reliable as the main basis of estimating fair value in limited situations. Their main use is to support valuations derived using other methodologies and for assessing reductions in fair value.

Where an independent third party valuation exists, this will be used as the basis to derive the gross attributable enterprise value of the company. In other cases, the most suitable valuation technique, as set out above, is used to determine this value. This value is then apportioned appropriately to reflect the respective amounts accruing to each financial instrument holder in the event of a sale at that level at the reporting date.

Unquoted investments held in the form of loan investments are valued at fair value using the appropriate methodologies as used for valuing equity investments, primarily being price of recent investment and earnings multiple.

Quoted Investments

Quoted investments are valued at active market bid price. An active market is defined as one where transactions take place regularly with sufficient volume and frequency to determine price on an ongoing basis. Where the Company judges that the level of trading does not meet these requirements one of the methodologies above will be used to value the investment. No methodology other than active market bid price has been applied as at 31 December 2014.

1. Principal Accounting Policies (continued)

Income

Dividend income on unquoted equity shares is recognised at the time when the right to the income is established. Interest on loan stock and dividends on preference shares are accrued daily on an effective rate basis. Provision is made against this income where recovery is doubtful. Where interest is rolled up and/or payable at redemption then it is recognised as income unless there is reasonable doubt as to its receipt.

Expenses

Expenses are accounted for on an accruals basis. Expenses are charged through the Revenue column of the Statement of Comprehensive Income, except for Investment Adviser's fee and incentive fees. Of the Investment Adviser's fees 75 per cent are allocated to the Capital column of the Statement of Comprehensive Income, to the extent that these relate to an enhancement in the value of the investments and in line with the Board's expectation that over the long term 75 per cent of the Company's investment returns will be in the form of capital gains. The incentive fee payable to the Investment Adviser (as set out in note 3) is charged wholly through the Capital column.

Tax relief is allocated to the Capital Reserve using a marginal basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash at hand as this meets the definition in IAS 7 'Statement of cash flows' of a short term highly liquid investment that is readily convertible into known amounts of cash and subject to insignificant risk of change in value.

Balances held in fixed term deposits are not classified as cash and cash equivalents, unless they are due for maturity within three months of the balance sheet date, as they do not meet the definition in IAS 7 'Statement of cash flows' of short-term highly liquid investments.

Cash flows classified as "operating activities" for the purposes of the Statement of Cash Flows are those arising from the Revenue column of the Income Statement, together with the items in the Capital column that do not fall to be easily classified under the headings for "Investing Activities" given by IAS 7 'Statement of cash flows', being advisory and incentive fees payable to the Investment Adviser. The Capital cash flows relating to acquisition and disposal of investments are presented under "investing activities" in the Statement of Cash Flows in line with both the requirements of IAS 7 and the positioning given to these headings by general practice in the industry.

Reserves

Share Capital

This reserve contains the nominal value of all shares allotted under recent Offers for subscription.

Share Premium Account

This reserve contains the excess of gross proceeds less issue costs over the nominal value of shares allotted under recent Offers for subscription.

Capital Redemption Reserve

The nominal value of shares bought back and cancelled is held in this reserve, so that the Company's capital is maintained.

Capital Reserve

The following are included within this reserve:

- Gains and losses on realisation of investments;
- Realised losses upon permanent diminution in value of investments;
- 75 per cent of the Investment Adviser's fee expense, together with the related taxation effect to this reserve in accordance with the policy on expenses in note 1 of the financial statements;
- Incentive fee payable to the Investment Adviser;
- Capital dividends paid to shareholders;
- Purchase and holding of the Company's own shares;
- Credit arising from the cancellation of the share premium account.

Investment Holding Gains (Losses) Reserve

Increases and decreases in the valuation of investments held at the year-end are accounted for in this reserve, except to the extent that the diminution is deemed permanent.

In accordance with stating all investments at fair value through the profit and loss, all such movements through both revaluation and realised capital reserves are now shown within the Income Statement for the year.

1. Principal Accounting Policies (continued)

Revenue Reserve

This reserve includes all yield income from investments along with any costs associated with the running of the Company – less 75 per cent of the advisory fee expense as detailed in the Capital Reserve above.

Taxation

Due to the Company's status as a venture capital trust and the continued intention to meet the conditions required to comply with Chapter 3 Part 6 of the Income Tax Act 2007, no provision for taxation is required in respect of any realised or unrealised appreciation of the Company's investments which arises. Deferred tax is recognised on all temporary differences that have originated, but not reversed, by the balance sheet date.

Deferred tax assets are only recognised to the extent that they are regarded as recoverable. Deferred tax is calculated at the tax rates that are expected to apply when the asset is realised. Deferred tax assets and liabilities are not discounted.

Dividends Payable

Dividends payable are recognised only when an obligation exists. Interim dividends are recognised when paid and final dividends are recognised when approved by shareholders in general meetings.

Segmental Reporting

In accordance with IFRS 8 'Operating segments' and the criteria for aggregating reportable segments, segmental reporting has been determined by the directors based upon the reports reviewed by the Board. The directors are of the opinion that the Company has engaged in a single operating segment – investing in equity and debt securities within the United Kingdom – and therefore no reportable segmental analysis is provided.

Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with generally accepted accounting practice requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are those used to determine the fair value of investments at fair value through profit or loss.

The fair value of investments at fair value through profit or loss is determined by using valuation techniques. As explained above, the Board uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date.

2. Income

	2014 £000	2013 £000
Dividends from unquoted companies	**43**	40
Dividends from AIM quoted companies	**160**	44
Interest on loans to unquoted companies	**926**	384
Fixed income Government securities	**7**	18
Income from investments held at fair value through profit or loss	**1,136**	486
Interest on bank deposits	**136**	203
	1,272	689

The above is stated net of £46,000 (2013: £57,000) of income in relation to loan interest, which has been fully provided for.

3. Administrative Expenses

	2014 £000	2013 £000
Investment Adviser's fee	**694**	562
Other expenses:		
Trail commission	**100**	62
Directors' remuneration (comprises only short term benefits including social security contributions)	**75**	75
Administration fee	**60**	58
Printing	**47**	29
Listing and registrar fees	**43**	37
General expenses	**39**	40
Irrecoverable VAT	**20**	22
Auditor's remuneration – audit fees (excluding irrecoverable VAT)	**18**	17
	1,096	902

No fees are payable to the auditor in respect of other services supplied pursuant to legislation (2013: £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 and 17 October 2014 (the "IAA"). The IAA 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, 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, at the rate of 2.5 per cent of net assets, 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;
- Pursuant to a deed of variation dated 26 October 2011 the advisory fee will be reduced to 1.25 per cent per annum in respect of any net asset value of the Company in excess of £16 million and up to £26.667 million and to 2.0 per cent in respect of any net asset value of the Company in excess of £26.667 million;
- Pursuant to the deed of variation dated 17 October 2014, 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, a reduction from the previous level of 3.25 per cent; 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.

When the Company makes investments into its unquoted portfolio the Investment Adviser charges that investee an arrangement fee, calculated by applying a percentage to the investment amount. 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 2014, the Company was due a rebate from the Investment Adviser of £4,000 (2013: £12,000).

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 in the period was £754,000 (2013: £620,000).

Under the Subscription Rights Agreement dated 23 November 2001 between the Company, YFM Private Equity Limited and Chord Capital Limited (formerly Generics Asset Management Limited), as amended by an agreement between those parties dated 31 October 2005, YFM Private Equity 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 cash dividends paid as at the last Business Day in December in any year plus the average of the middle market quotation per ordinary share exceeds 120 pence per ordinary share on that same day multiplied by the number of ordinary shares in issue and the shares under option (if any). The subscription rights were exercisable in the ratio 59:41 between YFM Private Equity and Chord. By a Deed of Assignment dated 19 December 2003 (together with a

3. Administrative Expenses (continued)

supplemental agreement dated 5 October 2005), the benefit of the YFM Private Equity 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. As at 31 December 2014 the total of cumulative cash dividends paid and mid-market price was 99.50 pence per ordinary share. No shares have been issued under this agreement.

Under the terms of the joint offer with British Smaller Companies VCT plc, launched on 14 January 2014 (which closed on 5 April 2014), YFM Private Equity Limited was entitled to 5.5 per cent of gross subscriptions from execution brokers and 3.5 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 payable to YFM Private Equity amounted to £488,847 in total.

Under the terms of the offer with British Smaller Companies VCT plc, launched on 20 October 2014, 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 payable to YFM Private Equity at the date of this report amounted to £280,895.

The Investment Adviser met all costs and expenses arising from these offers out of these fees, including any payment or re-investment of initial intermediary commissions (excluding permissible trail commission, which continues to be met by the Company).

The details of directors' remuneration are set out in the Directors' Remuneration Report on page 44 under the heading "Directors' Remuneration for the year ended 31 December 2014 (audited)".

4. Taxation

	2014			2013		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Corporation tax at 20 per cent (2013: 20 per cent)	–	–	–	–	–	–
Profit before taxation	697	460	1,157	208	1,923	2,131
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 20 per cent (2013: 20 per cent)	139	92	231	42	385	427
Effect of:						
UK dividends received	(41)	–	(41)	(17)	–	(17)
Non taxable profits on investments	–	(196)	(196)	–	(469)	(469)
Excess advisory expenses	(91)	97	6	(25)	84	59
Tax charge (credit)	7	(7)	–	–	–	–

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

Deferred tax assets of £560,000 calculated at 20 per cent (2013: £559,000) in respect of unrelieved advisory expenses (£2.799 million as at 31 December 2014 and £2.793 million as at 31 December 2013) 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 year to 31 December:

	2014			2013		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for 2013 of 2.5p (2012: 2.5p) per ordinary share	**7**	**1,542**	**1,549**	154	1,001	1,155
Interim dividend for 2014 of 2.0p (2013: 2.0p) per ordinary share	**162**	**1,083**	**1,245**	129	799	928
	169	**2,625**	**2,794**	283	1,800	2,083
Shares issued under DRIS			**(436)**			(286)
Unclaimed dividends			**(75)**			–
Dividends paid in Statement of Cash Flows			**2,283**			1,797

The final year-end dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2013 was paid on 30 June 2014 to shareholders on the register at 30 May 2014.

The interim dividend of 2.0 pence per ordinary share was paid on 7 October 2014 to shareholders on the register as at 5 September 2014.

A final dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2014 is proposed. This dividend has not been recognised in the year ended 31 December 2014 as the obligation did not exist at the balance sheet date.

During the year the Company has received £75,000 from the Registrars in respect of unclaimed dividends. These are held in a separate bank account until such time as contact can be made with the shareholders affected so that payment can be made to them.

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 £1,157,000 (2013: £2,131,000 profit) and 57,825,246 (2013: 45,070,587) 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 £690,000 (2013: £208,000) and 57,825,246 (2013: 45,070,587) 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 £467,000 (2013: £1,923,000) and 57,825,246 (2013: 45,070,587) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company issued 16,245,613 ordinary shares. The Company has also repurchased 132,300 of its own shares which are held in treasury. The treasury shares have been excluded in calculating the weighted average number of ordinary shares for the period that they were treasury shares.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the IAA as set out in Note 3. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2014 or 31 December 2013.

7. Financial Assets at Fair Value Through Profit or Loss

IFRS13, in respect of financial instruments that are measured in the balance sheet at fair value, requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- **Level 1:** quoted prices in active markets for identical assets or liabilities. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1 and comprise AIM quoted investments or Government securities and other fixed income securities classified as held at fair value through profit or loss.

- **Level 2:** the fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The Company held no such instruments in the current or prior year.

- **Level 3:** the fair value of financial instruments that are not traded in an active market (for example, investments in unquoted companies) is determined by using valuation techniques such as earnings multiples. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Each investment is reviewed at least quarterly to ensure that it has not ceased to meet the criteria of the level in which it is included at the beginning of each accounting period. The change in fair value for the current and previous year is recognised through profit or loss.

All items held at fair value through profit or loss were designated as such upon initial recognition.

Valuation of Investments

Full details of the methods used by the Company are set out in note 1 of these financial statements. Where investments are held in quoted stocks, fair value is set at the market price.

Movements in investments at fair value through profit or loss during the year to 31 December 2014 are summarised as follows:

IFRS 13 measurement classification	Level 3	Level 1		Level 1	
	Unquoted Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	13,792	2,061	**15,853**	888	**16,741**
Opening investment holding (loss) gain	(4)	406	**402**	2	**404**
Opening fair value at 1 January 2014	**13,788**	**2,467**	**16,255**	**890**	**17,145**
Additions at cost	13,110	486	**13,596**	475	**14,071**
Capitalised interest	8	-	**8**	-	**8**
Disposal proceeds	(1,687)	(627)	**(2,314)**	(1,365)	**(3,679)**
Net profit on disposal*	501	59	**560**	–	**560**
Change in fair value in the year on assets held at 31 December 2014	368	(257)	**111**	–	**111**
Closing fair value at 31 December 2014	**26,088**	**2,128**	**28,216**	**–**	**28,216**
Closing cost	24,593	2,146	**26,739**	–	**26,739**
Closing investment holding gain (loss)	1,495	(18)	**1,477**	–	**1,477**
Closing fair value at 31 December 2014	**26,088**	**2,128**	**28,216**	**–**	**28,216**

*The net profit on disposal in the table above is £560,000 whereas that shown in the Statement of Comprehensive Income and the table on page 17 is £870,000. The difference comprises deferred proceeds of £310,000 in respect of assets which have been disposed and are not included within the investment portfolio at the year end.

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 2014 a total of £30,000 was held on investments yet to be realised in the investment holdings gains and losses reserve.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

The total of fair value adjustments below cost made against unquoted investments during the year ended 31 December 2014 amounted to £766,000 (2013: £524,000).

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company. In 2013 there were also no such individual reductions.

Movements in investments at fair value through profit or loss during the year to 31 December 2013 are summarised as follows:

IFRS 13 measurement classification	Level 3*	Level 1		Level 1	
	Unquoted Investments £000	Quoted Equity Investments £000	**Total Quoted and Unquoted £000**	Fixed Income Securities £000	**Total Investments £000**
Opening cost	13,780**	2,092	**15,872**	888	**16,760**
Opening investment holding (loss) gain	(4,423)**	(86)	**(4,509)**	24	**(4,485)**
Opening fair value at 1 January 2013	**9,357**	**2,006**	**11,363**	**912**	**12,275**
Transfer between Level 1 and Level 3***	(194)	194	**–**	–	**–**
Additions at cost	5,149	350	**5,499**	–	**5,499**
Capitalised interest	12	–	**12**	–	**12**
Disposal proceeds	(2,270)	(656)	**(2,926)**	–	**(2,926)**
Net profit on disposal	378	159	**537**	–	**537**
Change in fair value in the year on assets held at 31 December 2013	1,356	414	**1,770**	(22)	**1,748**
Closing fair value at 31 December 2013	**13,788**	**2,467**	**16,255**	**890**	**17,145**
Closing cost	13,792	2,061	**15,853**	888	**16,741**
Closing investment holding (loss) gain	(4)	406	**402**	2	**404**
Closing fair value at 31 December 2013	**13,788**	**2,467**	**16,255**	**890**	**17,145**

* All of the changes in fair value during the year to level 3 investments relate to assets held at the year end.

** During the year to 31 December 2013 three investments deemed in 2012 as having been written off from the portfolio were re-instated with a carrying value of zero. This has had no effect on either the opening or closing carrying value of investments but has resulted in both a higher value for the cost of investments held and higher value for the investment holding gain or loss.

*** During the year Cambridge Cognition Limited was listed on AIM becoming Cambridge Cognition Holdings plc.

Level 3 valuations include assumptions based on non-observable market data, such as discounts applied either to reflect change in fair value of financial assets held at the price of recent investment, or to adjust earnings multiples. IFRS 13 requires an entity to disclose quantitative information about the significant unobservable inputs used. Of the Company's level 3 investments, 64 per cent are held on an earnings multiple basis, which have significant judgement applied to the valuation inputs. The table below sets out the range of Price Earnings ratios and discounts applied in arriving at investments valued on an earnings multiple basis. 30 per cent are recent deals held at cost. The remaining 6 per cent are valued based on previous investment round reviewed for impairment.

	Manufacturing & Industrial Services	Retail & Brands	Software, IT & Telecommunications	Healthcare	Business Services
Earning multiple inputs					
PE Multiple Range	18.43 – 24.01	17.34 – 21.49	18.51 – 24.87	16.63	24.01
PE Multiple Weighted Average	21.59	19.67	22.03	16.63	24.01
Combined PE and/or Marketability Discount Range	44% – 72%	44% – 52%	44% - 68%	52%	60% – 68%
Combined PE and/or Marketability Discount Weighted Average	62%	48%	57%	52%	64%

7. Financial Assets at Fair Value Through Profit or Loss (continued)

The standard also requires disclosure, by class of financial instruments, if the effect of changing one or more inputs to reasonably possible alternative assumptions would result in a significant change to the fair value measurement. Each unquoted portfolio company has been reviewed in order to identify the sensitivity of the valuation methodology to using alternative assumptions. Where discounts have been applied (for example to Earnings Levels or P/E ratios) alternatives have been considered which still fall within the IPEVC Guidelines (see page 55). For each unquoted investment, two scenarios have been modelled: more prudent assumptions (downside case) and more optimistic assumptions (upside case). Applying the downside alternative the value of the unquoted investments would be £2.07 million or 7.9 per cent lower. Using the upside alternative the value would be increased by £2.47 million or 9.4 per cent.

The following disposals took place in the year:

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2014 £000	Profit on disposal £000
Unquoted investments				
Waterfall Services Limited	964	25	489	475
DisplayPlan Holdings Limited	228	175	191	37
Callstream Group Limited (formerly Bluebell Telecoms Group Limited)	169	109	180	(11)
Macro Art Holdings limited	21	21	21	–
GTK (Holdco) Limited	225	225	225	–
Bagel Nash Group Limited	80	80	80	–
Quoted investments:				
Pressure Technologies plc	205	48	151	54
Vianet Group plc	176	243	165	11
Iomart Group plc	97	30	90	7
Optos plc	149	80	162	(13)
	2,314	**1,036**	**1,754**	**560**
Deferred proceeds:				
Sirigen Group Limited (received in the year)	345	–	120	225
Sirigen Group Limited (included in receivables)	85	–	–	85
Total proceeds from quoted and unquoted investments	**2,744**	**1,036**	**1,874**	**870**
Fixed income securities	1,365	1,363	1,365	–
Total	**4,109**	**2,399**	**3,239**	**870**

The Company may also become entitled to receive up to $188,000 in respect of the sale of Sirigen Group Limited over the period to 2016, in relation to escrow accounts regarding potential liabilities. At the year end £85,000 was included within non-current receivables in respect of deferred consideration.

Additionally the Company may become entitled to receive up to £24,000 in respect of the sale of Primal Pictures Limited in relation to escrow amounts regarding utilisation of tax losses. At the year end £12,000 was included within non-current receivables in respect of this deferred consideration.

In addition, the investments in Silistix Limited and Ellfin Home Care Limited which were fully provided for and carried at nil value have been transferred to realised reserves during the year.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

The following disposals took place in 2013 (all companies are unquoted except where otherwise indicated):

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2013 £000	Profit on disposal £000
Unquoted investments				
Digital Healthcare Limited	1,285	3,072	913	372
Callstream Group Limited (formerly Bluebell Telecoms Group Limited)	96	62	90	6
Seven Technologies Holdings Limited	700	700	700	–
Bagel Nash Group Limited	13	13	13	–
Waterfall Services Limited	167	167	167	–
GTK (Holdco) Limited	9	9	9	–
Purely Proteins Limited	–	438	–	–
Express on Biosystems Limited	–	450	–	–
Quoted investments:				
Pressure Technologies plc	293	134	142	151
May Gurney Integrated Services plc	94	106	70	24
Tikit Group plc	266	184	262	4
2 Ergo Group plc	3	197	23	(20)
	2,926	**5,532**	**2,389**	**537**
Deferred proceeds:				
DxS Limited (received in the year)	90	–	70	20
Primal Pictures Limited (received in the year)	35	–	18	17
Primal Pictures Limited (included in receivables)	12	–	–	12
Sirigen Group Limited (included in receivables)	10	–	–	10
Total proceeds from quoted and unquoted investments	**3,073**	**5,532**	**2,477**	**596**
Fixed income securities	–	–	–	–
Total	**3,073**	**5,532**	**2,477**	**596**

7. Financial Assets at Fair Value Through Profit or Loss (continued)

Significant Interests

YFM Private Equity Limited, the Company's Investment Adviser, also acts as investment adviser to certain other funds under its management that have invested in some of the companies within the current portfolio of the Company. Details of these investments are summarised in the tables below.

At 31 December 2014 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly managed funds, in the following companies:

Company	Principal activity	No. of shares held by the Company	Percentage of class held by the Company	Percentage of class held by commonly managed funds
ACC Aviation (via Newacc (2014) Limited)	Business Services	14,365,817	15%	55%
Bagel Nash Group Limited	Food Retail and Manufacture	33,091	5%	40%
Business Collaborator Limited	Software	126,000	19%	48%
Cambrian Park & Leisure Homes Limited	Manufacturing	100,000	16%	40%
Deep-Secure Limited	Software	49,678	8%	57%
DisplayPlan Holdings Limited	Retail	1,260	12%	35%
Gill Marine Holdings Limited	Consumer Retail	138,137	14%	66%
GTK (Holdco) Limited	Manufacturing	14,531,200	18%	50%
Harvey Jones Holdings Limited	Consumer Retail	38,858	3%	30%
The Heritage Window Company Holdco Limited (via DWFCO 8 Limited)	Manufacturing	1,142,400	28%	70%
Immunobiology Limited	Healthcare	20,109,968	23%	–
Insider Technologies (Holdings) Limited	Software	193,200	17%	43%
Intamac Systems Limited	Software	1,500,000	12%	34%
IO Outsourcing Limited*	Business Services	106,609	18%	44%
Macro Art Holdings Limited	Business Services	100,000	13%	32%
Mangar Health Limited	Healthcare	78,555	15%	42%
RMS Group Holdings Limited	Industrial	59,619	3%	23%
Seven Technologies Holdings Limited	Manufacturing	619,130	6%	38%
Springboard Research Holdings Limited	Business Services	98,560	9%	22%
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing	49,600	14%	42%

* Formerly Intelligent Office UK Limited

In a number of cases the issued ordinary share capital of an investee company is split into different classes of shares and thus the percentages given above do not necessarily represent the Company's (or other commonly managed funds') percentage holding of an investee company's total equity. The Company does not hold more than 50 per cent of the equity of any company in the investment portfolio, either on its own or in conjunction with other commonly managed funds.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

The amounts shown below are the net cost of investments as at 31 December 2014 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT plc £000	British Smaller Companies EIS Fund £000	The Chandos Fund LP £000	YFM Equity Partners II LP £000	**Total managed in other funds £000**
Intelligent Office (via IO Outsourcing Limited)	2,934	–	–	–	2,934
DisplayPlan Holdings Limited	975	–	–	–	975
Mangar Health Limited	2,460	500	–	–	2,960
Gill Marine Holdings Limited	2,500	600	4,000	–	7,100
Seven Technologies Holdings Limited	1,984	370	3,941	–	6,295
GTK (Holdco) Limited	1,394	250	–	–	1,644
ACC Aviation (via Newacc (2014) Limited)	2,068	–	–	1,723	3,791
Business Collaborator Limited	2,010	–	–	–	2,010
The Heritage Window Company Holdco Limited	1,903	–	–	–	1,903
Cambrian Park & Leisure Homes Limited (via DWFCO 8 Limited)	1,800	–	–	–	1,800
Harvey Jones Holdings Limited	1,984	–	223	–	2,207
Springboard Research Holdings Limited	1,778	–	–	–	1,778
Leengate Holdings Limited	1,401	–	–	–	1,401
Callstream Group Limited	329	–	–	–	329
Macro Art Holdings Limited	1,228	–	–	–	1,228
RMS Group Holdings Limited	180	–	250	–	430
Intamac Systems Limited	250	–	2,182	–	2,432
Wakefield Acoustics (via Malvar Engineering Limited)	1,080	–	–	–	1,080
Bagel Nash Group Limited	1,099	–	2,163	–	3,262
PowerOasis Limited	445	–	1,186	–	1,631
Insider Technologies (Holdings) Limited	1,170	–	–	–	1,170
Deep-Secure Limited	1,000	–	2,000	–	3,000
Selima Holding Company Limited	600	–	–	–	600
Pressure Technologies plc	182	–	–	–	182
AB Dynamics plc	380	–	–	–	380
EKF Diagnostics Holdings plc	448	–	–	–	448
Hargreaves Services plc	310	–	–	–	310
Gamma Communications plc	253	–	–	–	253
Cambridge Cognition Holdings plc	203	–	–	–	203
TeraView Limited	375	–	–	–	375
Total	**34,723**	**1,720**	**15,945**	**1,723**	**54,111**

8. Trade and Other Receivables

	2014 £000	2013 £000
Non-current assets:		
Accrued income	**417**	132
Current assets:		
Trade receivables	**313**	191
Less: Allowances for credit losses on trade receivables	**(197)**	(151)
Prepayments and accrued income	**198**	83
	314	123
Allowance for credit losses on trade receivables:		
Allowances as at 1 January	**151**	94
Additions – charged to Statement of Comprehensive Income	**46**	57
Allowances as at 31 December	**197**	151

Trade receivables are assessed for reduction in fair value when older than 90 days or where there is reasonable doubt that payment will be received in due course. As of 31 December 2014, there were no trade receivables that were past due but not impaired (2013: £40,000). The ageing analysis of these trade receivables is as follows:

	2014 £000	2013 £000
1 – 3 months	**–**	40

As of 31 December 2014, there was £197,000 of trade receivables (2013: £151,000) impaired and provided for. The ageing of these receivables is as follows:

	2014 £000	2013 £000
1 – 3 months	**–**	15
3 – 6 months	**16**	15
6 – 12 months	**30**	27
More than 12 months	**151**	94
	197	151

The carrying amounts of the Company's trade and other receivables are denominated in sterling.

The maximum exposure to credit risk at the reporting date in respect of trade and other receivables is £116,000 (2013: £40,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2014 £000	2013 £000
Cash at bank	**10,633**	8,680
Cash equivalents	**–**	–
Cash and cash equivalents	**10,633**	8,680

In accordance with the definition of cash and cash equivalents the amounts in both the current and prior year were shown separately as a current asset on the face of the balance sheet.

10. Trade and Other Payables

	2014 £000	2013 £000
Amounts payable within one year:		
Accrued expenses	**247**	122
	247	122

11. Called-up Share Capital

	2014 Allotted, Called-up and Fully paid £000	2013 Allotted, Called-up and Fully paid £000
Ordinary shares of 10p Issued: 64,466,898 (2013: 48,221,285) including 1,910,022 shares held in treasury (2013: 1,777,722)	**6,447**	4,822

The movement in the year was as follows:

		Price	Date	Number of shares	Share capital £000
Total as at 1 January 2014				48,221,285	4,822
Issue of shares	Fundraising	69.5 pence	31 March 2014	5,912,188	591
Issue of shares	Fundraising	68.0-71.19 pence	31 March 2014	5,568,210	557
Issue of shares	Fundraising	69.5 pence	4 April 2014	440,429	44
Issue of shares	Fundraising	68.0-72.06 pence	4 April 2014	827,035	83
Issue of shares	Fundraising	69.5 pence	5 April 2014	226,879	23
Issue of shares	Fundraising	68.0-72.06 pence	5 April 2014	122,499	12
Issue of shares	Fundraising	69.5 pence	29 May 2014	1,517,587	152
Issue of shares	Fundraising	68.0-71.22 pence	29 May 2014	896,788	90
Issue of shares	DRIS	60.6 pence	30 June 2014	377,855	38
Issue of shares	DRIS	58.1 pence	7 October 2014	356,143	35
As at 31 December 2014 (including treasury shares)				**64,466,898**	**6,447**

As part of the Company's 2013/14 and 2014/15 fundraising, bonus shares were offered to new and existing shareholders who subscribed before 28 March 2014. These bonus shares were issued with no corresponding cash proceeds and has resulted in a difference between the issue of equity in the Statement of Changes in Equity and the cash proceeds received in the Statement of Cash Flows.

During the year the Company purchased 132,300 (2013: 524,961) of its own shares and these shares are held in treasury on the balance sheet. Full details of the share purchases are set out in the Directors' Report under the heading 'Issue and Buy-Back of Shares'. The treasury shares have been included in calculating the number of ordinary shares in issue at 31 December 2014.

The Company is party to a share based payment arrangement as defined by IFRS 2 'Share based payments'. The details of the arrangement are explained in Note 3: Administration Expenses. As the arrangement was entered into prior to 7 November 2002, the Company is not required to account for the arrangement under IFRS 2. No shares have been issued to date under this arrangement.

Between the year end and the date of these financial statements the Company allotted 14,110,981 new ordinary shares of 10.0 pence each at prices ranging between 63.25 pence and 69.13 pence pursuant to the offer for subscription made by the Company and British Smaller Companies VCT plc.

Date	Number of ordinary shares	Offer price (pence)
6 January 2015	7,417,987	65.50-69.13
2 February 2015	2,893,324	63.25-66.23
2 March 2015	3,799,670	63.25-66.23

12. 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 £39,333,000 (2013: £30,458,000) and 62,556,876 (2013: 46,443,563) 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 2014.

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 IAA as set out in note 3. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2014 or 31 December 2013. Consequently, basic and diluted net asset value per ordinary share is the same for the year ended 31 December 2014 and 31 December 2013.

13. Total Return per Ordinary Share

The total return per ordinary share is calculated on cumulative dividends paid of 43.5 pence per ordinary share (2013: 39.0 pence per ordinary share) plus the net asset value as calculated per note 12.

14. Financial Commitments

At 31 December 2014 the Board had committed a total of £1.4 million for investment into new portfolio companies subject to satisfactory due diligence and legal completion. Since the year end two further investments totalling £2.6 million have been approved by the Board.

15. Related Party Transactions

Mr R Last was appointed chairman and non-executive director of Gamma Communications Limited ("Gamma") on 17 June 2014. On 10 October 2014 the ordinary shares of Gamma were admitted to trading on AIM. As part of the placing of Gamma's ordinary shares Mr R Last invested £100,000, representing a 0.06 per cent equity stake in Gamma. During the year he received £43,750 from Gamma in respect of his services.

16. Events after the Balance Sheet Date

Following the period end an investment of £0.4 million has been made into quoted portfolio company Gooch & Housego plc, a company specialising in the design, manufacture and supply of fibre optic solutions such as optical components, photonic packaging and optoelectronic integration.

In the period since the year end the Company has also received £435,000 of monthly capital loan repayments from investee companies. The most significant of these was £303,000 received in February 2015 from DisplayPlan Holdings Limited as part of an early loan repayment agreed with the company.

Subsequent to the year end the Company allotted a total of 14,110,981 ordinary shares on 6 January 2015, 2 February 2015 and 2 March 2015 pursuant to the offer detailed under "Fundraising" on page 8, raising net proceeds of £8.67 million.

17. Financial Instruments

The Company has no derivative financial instruments and has no financial asset or liability for which hedge accounting has been used in either year. The Company classifies its financial assets as either fair value through profit or loss or loans and receivables.

It is the directors' opinion that the carrying value of trade receivables and trade payables approximates their fair value. Therefore, the directors consider all assets to be carried at a valuation which equates to fair value.

Investments are made in a combination of equity, fixed rate and variable rate financial instruments so as to comply with VCT legislation and provide potential future capital growth. Surplus funds are held in bank deposits until suitable qualifying investment opportunities arise.

In accordance with IAS 39, the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain criteria set out in the standard. No embedded derivatives have been identified by the Company.

17. Financial Instruments (continued)

The accounting policies for financial instruments have been applied to the items below:

Assets as per balance sheet

	2014		2013	
	Loans and receivables £000	Assets at fair value through profit or loss £000	Loans and receivables £000	Assets at fair value through profit or loss £000
Non-current assets				
Financial assets at fair value through profit and loss	**–**	**28,216**	–	17,145
Accrued income	**332**	**–**	132	–
Other debtors	**85**	**–**	–	–
	417	**–**	132	–
Current assets				
Cash and cash equivalents	**10,633**	**–**	8,680	–
Cash on fixed term deposit	**–**	**–**	4,500	–
Trade and other receivables	**236**	**–**	41	–
	11,286	**28,216**	13,353	17,145
Other assets – not financial instruments	**78**	**–**	82	–
	11,364	**28,216**	13,435	17,145

Liabilities as per balance sheet

	2014 Other financial liabilities £000	2013 Other financial liabilities £000
Trade and other payables	**(247)**	(122)
	(247)	(122)

Assets classified as fair value through profit or loss were designated as such upon initial recognition. The Company has not reclassified financial assets between any of the categories detailed in IAS 39, either in current or prior periods.

The Company's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Company is exposed are market risk, credit risk and liquidity risk. The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below. There have been no changes since last year in the objectives, policies, and processes for managing and measuring risks facing the Company.

17a Market Risk

Market Price Risk

The Company invests in new and expanding businesses, the shares of which may not be traded on the stock market. Consequently, exposure to market factors, in relation to many investments, stems from market based measures that may be used to value unlisted investments.

The market also defines the value at which investments may be sold. Returns are therefore maximised when investments are bought or sold at appropriate times in the economic cycle.

Market price risk arises from uncertainty about the future prices of financial instruments held in accordance with the Company's investment objectives. It represents the potential loss that the Company might suffer through holding market positions in the face of market movements. In addition, the ability of the Company to purchase or sell investments is also constrained by requirements set down for VCTs.

17. Financial Instruments (continued)

Of the Company's investments, 8 per cent are quoted on AIM (2013: 15 per cent). A 5 per cent increase in stock prices as at 31 December 2014 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £106,000 (2013: £123,000). An equal change in the opposite direction would have decreased the net assets attributable to the Company's shareholders and the total profit for the year by an equal amount.

Of the Company's investments, 92 per cent are in unquoted companies held at fair value (2013: 85 per cent). The valuation methodology for these investments includes the application of externally produced FTSE® multiples. Therefore the value of the unquoted element of the portfolio is also indirectly affected by price movements on the listed market. Investments have been valued in line with the valuation guidelines described within note 1. Those using an earnings multiple methodology include judgements regarding the level of discount applied to that multiple. A 10 per cent decrease in the discount applied would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £1,493,000 (3.8 per cent of net assets). An equal change in the opposite direction would have decreased net assets attributable to the Company's shareholders and the total profit for the year by £1,507,000 (3.8 per cent of net assets).

The largest single concentration of risk relates to the Company's investment in IO Outsourcing Limited which constitutes 6.0 per cent of the net assets attributable to the Company's shareholders. The Board seeks to mitigate this risk by diversifying the portfolio and monitors the status of all investments on an ongoing basis. The average investment, excluding those that have had their fair value reduced to nil, is 2.1 per cent (2013: 2.0 per cent) of the value of net assets.

Interest Rate Risk

The Company's venture capital investments include £12,945,000 (2013: £6,785,000) of loan stock at cost in unquoted companies. The majority of this loan stock at 31 December 2014 is at fixed rates to guard against fluctuations in interest rates. As a result the Company is exposed to cash flow interest rate risk on £200,000 (2013: Nil) of its loan stock portfolio.

Other financial assets (being accrued income) and other financial liabilities (being accrued expenses) attract no interest and have an expected maturity date of less than one year.

	2014			2013		
	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months	£000	Weighted average interest rate %	Weighted average time for which rate is fixed Months
Fixed rate loan stock and preference shares	**17,924**	**9.30**	**45**	7,703	9.76	46
Government gilts	**–**	**–**	**–**	892	1.99	29
Cash on fixed term deposit	**–**	**–**	**–**	4,500	1.50	8
Combined	**17,924**	**9.30**	**45**	13,095	6.39	31

Exchange Rate Risk

The Company has no significant exposure to exchange rate risk.

17b Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Adviser has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets excluding equity investments total £29,410,000 (2013: £21,945,000) which best represents the maximum credit risk exposure at the balance sheet date.

The Company does not invest in floating rate instruments other than, on occasion, unquoted loan stock. Credit risk on unquoted loan stock held within unlisted investments is considered to be part of market risk as disclosed above.

17. Financial Instruments (continued)

The fair value of the loans and receivables is not regarded as having changed due to the changes in credit risk in either year.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the high credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk. Bankruptcy or insolvency of the broker may cause the Company's rights with respect to securities held by the broker to be delayed or limited. The Investment Adviser monitors the Company's risk by reviewing the broker's internal control reports on a regular basis.

The cash held by the Company is held across a number of banks to spread the risk. Bankruptcy or insolvency of these banks may cause the Company's rights with respect to the cash held by the bank to be delayed or limited. The banks used by the Company are large and reputable. Should the credit quality or the financial position of the banks or broker deteriorate significantly the Investment Adviser will move the cash holdings to another bank.

The maturities of the loan stock portfolio are as follows:

	2014 £000				2013 £000			
	<1 year	1-2 years	2-5 years	>5 years	<1 year	1-2 years	2-5 years	>5 years
Unquoted loan investments	**1,028**	**1,195**	**10,250**	**436**	757	530	2,776	2,834

The past due maturity dates of the loan stock portfolio are as follows:

	2014 £000			2013 £000		
	1 month	3-6 months	> 6 months	1 month	3-6 months	> 6 months
Interest	**–**	**–**	**–**	40	–	–
Capital repayment	**–**	**–**	**–**	–	–	–

All amounts where loan stock is overdue are subject to ongoing negotiations as to the rescheduling of capital repayments.

17c Liquidity Risk

The risk to the Company relates to liabilities which fall due within one year. These liabilities are deemed immaterial and as such the risk associated with them is minimal.

The Company needs to retain enough liquid resources to support the financing needs of its investment businesses. To meet this aim the Company places its surplus funds in bank interest deposit accounts. Investments in liquidity funds are held for the purpose of liquidity whilst waiting for suitable qualifying investment opportunities to arise.

The Company's liquidity risk is managed on an ongoing basis by the Investment Adviser in accordance with policies and procedures in place. The cash requirements of the Company in respect of each investment are assessed at monthly portfolio meetings.

The Company's overall liquidity risks are monitored on a quarterly basis by the Board. The Company maintains sufficient investments in cash and readily realisable securities to pay accounts payable and accrued expenses. Of the Company's assets 27.0 per cent (2013: 28.5 per cent) are in the forms of liquid cash. There are no undrawn committed borrowing facilities at either year end. The Company does not have a material amount of liabilities at the year end.

Fair Value Methods and Assumptions

Detailed valuation policies in respect of the investment portfolio are set out in note 1. Where investments are in quoted stocks, fair value is set at market price. Non-quoted investments are valued in line with the IPEVC Guidelines. The primary methods used, and the key assumptions relating to them, are:

Price of recent investment, reviewed for change in fair value: the cost of the investment, adjusted for background factors specific to the investment, is taken as a reasonable assessment of fair value for a period of up to one year. During this period performance against budget is monitored for evidence of changes to this initial fair value. Valuations may be re-based following substantial investment by a third party when this offers evidence that there has been a change in fair value.

17. Financial Instruments (continued)

Earnings multiple: the appropriate sector FTSE® multiples are used as a market-based indication of the enterprise value of an investment company. A discount is applied to the multiple by the Investment Adviser based on the perceived market interest in that company or sector and on any benefit that may be observed by holding a significant shareholding or superior rights.

Although permitted by the IPEVC Guidelines, other valuation methods have not been used in the year.

18. Capital Management

The Company's objectives when managing capital are:

- to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to ensure sufficient liquid resources are available to meet the funding requirements of its investments and to fund new investments where identified.

The Company has no external debt; consequently all capital is represented by the value of share capital, distributable and other reserves. Total shareholder equity at 31 December 2014 was £39.33 million (2013: £30.46 million).

In order to maintain or adjust its capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

There have been no changes in capital management objectives or the capital structure of the business from the previous year. The Company is not subject to any externally imposed capital requirements.

NOTICE OF THE ANNUAL GENERAL MEETING

No: 04084003

BRITISH SMALLER COMPANIES VCT2 PLC

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at 33 St James Square, London, SW1Y 4JS on 15 May 2015 at 12:00 noon for the following purposes:

To consider and, if thought fit, pass the following resolutions:

Ordinary Resolutions

(1) That the annual report and accounts for the year ended 31 December 2014 be received.

(2) That the final dividend of 2.5 pence per ordinary share for the year ended 31 December 2014 be approved.

(3) That the Directors' Remuneration Report for the year ended 31 December 2014 be approved other than the part of such report containing the Directors' Remuneration Policy.

(4) That Mr P C Waller be re-elected as a director.

(5) That Mr R M Pettigrew be re-elected as a director.

(6) That Mr R Last be re-elected as a director.

(7) That Grant Thornton UK LLP be re-appointed as auditor to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that the directors be authorised to fix their remuneration.

(8) That the directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company in connection with:

(i) the offers, up to an aggregate nominal amount of £3,000,000;

(ii) an offer of securities by way of a rights issue;

(iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of 10 per cent of the issued ordinary share capital of the Company immediately following the final closing of the offers, during the period commencing on the passing of this Resolution and expiring on the later of 15 months from the passing of this Resolution or the next Annual General Meeting of the Company (unless previously revoked, varied or extended by the Company in general meeting), but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require shares to be allotted, or rights to subscribe for or to convert any security into shares to be granted, after such expiry and that all previous authorities given to the directors be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Special Resolution

(9) That the directors be and are hereby empowered in accordance with Section 570(1) of the Act during the period commencing on the passing of this Resolution and expiring at the conclusion of the Company's next Annual General Meeting, or on the expiry of 15 months following the passing of this Resolution, whichever is the later, (unless previously revoked, varied or extended by the Company in general meeting), to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to the general authority conferred upon the directors in Resolution 8 above as if Section 561 of the Act did not apply to any such allotment provided that this power is limited to the allotment of equity securities in connection with:

(i) the offers, up to an aggregate nominal amount of £3,000,000;

(ii) an offer of securities by way of a rights issue;

(iii) the allotment for cash (otherwise than pursuant to sub-paragraphs (i) and (ii) above) of equity securities up to an aggregate nominal amount of 10 per cent of the issued ordinary share capital of the Company immediately following the final closing of the offers, but so that this authority shall allow the Company to make offers or agreements before the expiry and the directors may allot securities in pursuance of such offers or agreements as if the powers conferred hereby had not so expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 560(2) of the Act as if in the first paragraph of this Resolution the words "pursuant to the general authority conferred upon the directors in Resolution 8 above" were omitted.

BY ORDER OF THE BOARD

The City Partnership (UK) Limited
Company Secretary
26 March 2015

Registered office: 5th Floor, Valiant Building, 14 South Parade, Leeds LS1 5QS

Information regarding the Annual General Meeting, including the information required by section 311A of the Companies Act 2006, is available from **www.yfmep.com.**

Notes:

(a) Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and the notes of the Form of Proxy. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in these notes. Please read note (h) below. Under section 319A of the Companies Act 2006, the Company must answer any question a member asks relating to the business being dealt with at the Annual General Meeting unless:

- answering the question would interfere unduly with the preparation for the Annual General Meeting or involve the disclosure of confidential information;
- the answer has already been given on a website in the form of an answer to a question; or
- it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

(b) To be valid, a Form of Proxy must be completed and signed and with the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made. If no voting indication is given in the Form of Proxy, your proxy will vote (or abstain from voting) as they think fit in relation to any matter put to the Annual General Meeting.

(c) In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Asset Services before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to note (d) directly below, the proxy appointment will remain valid.

(d) Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.

(e) Copies of the directors' Letters of Appointment, the Register of Directors' Interests in the ordinary shares of the Company, a copy of the amended articles of association (marked up to show the changes) and a copy of the current articles of association of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (weekends and public holidays excluded) from the date of this Notice, until the end of the Annual General Meeting and at the Annual General Meeting venue itself for at least 15 minutes prior to and during the meeting.

(f) Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those holders of the Company's shares registered on the Register of Members of the Company as at 6.00pm on 13 May 2015 or, in the event that the Annual General Meeting is adjourned, on the Register of Members at 6.00pm on the day two days before the time of any adjourned meeting, shall be entitled to attend and vote at the said Annual General Meeting in respect of such shares registered in their name at the relevant time. Changes to entries on the Register of Members after 6.00pm on 13 May 2015 or, in the event that the Annual General Meeting is adjourned, on the Register of Members less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the right of any person to attend and vote at the Annual General Meeting.

(g) As at 26 March 2015, the Company's issued share capital comprised 76,667,857 ordinary shares of 10 pence each with a further 1,910,022 shares held in treasury. Those treasury shares represented 2.4 per cent of the total issued share capital (including treasury shares) at the aforementioned date. Each ordinary share carries one voting right at the Annual General Meeting of the Company and so the total number of voting rights in the Company as at 26 March 2015 was 76,667,857. The website referred to above will include information on the number of ordinary shares and voting rights.

(h) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person"):

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Annual General Meeting;
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights;
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

(i) A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

(j) In the case of joint members, any one of them may sign the Form of Proxy. The vote of the person whose name stands first in the register of members of the Company will be accepted to the exclusion of the votes of the other joint holders.

(k) A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given on the Form of Proxy, the proxy will vote or abstain from voting at his or her discretion. The proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

(l) Members may not use any electronic address provided either in this Notice of Annual General Meeting, or any related documents (including the Chairman's letter and Form of Proxy), to communicate with the Company for any purposes other than those expressly stated.

(m) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) not less than 48 hours (excluding weekends and public holidays) before the time of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

BRITISH SMALLER COMPANIES VCT2 PLC

Form of Proxy

To be used at the Annual General Meeting of the Company
to be held at 33 St James Square, London, SW1Y 4JS on 15 May 2015 at 12:00 noon

I/We _____ being a member/members of the above named Company entitled to attend and vote at the Annual General Meeting of the Company hereby appoint the Chairman of the Annual General Meeting or (see notes (2), (3) and (4)) _____ of

_____

to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 15 May 2015 at 12:00 noon and at any adjournment thereof.

Number of ordinary shares proxy is appointed over _____

Please tick here if this proxy is one of multiple proxy appointments being made (see note 2) ☐

My/our proxy is to vote on the resolutions as indicated below. Please indicate with an "x" how you wish your vote to be cast. If no voting indication is given, your proxy will vote or abstain from voting on the resolutions at their discretion.

	FOR	AGAINST	WITHHELD
Ordinary Resolutions			
1. To receive the annual report and accounts	☐	☐	☐
2. To approve a final dividend of 2.5 pence per ordinary share	☐	☐	☐
3. To approve the Directors' Remuneration Report	☐	☐	☐
4. To re-elect Mr P C Waller as a director	☐	☐	☐
5. To re-elect Mr R M Pettigrew as a director	☐	☐	☐
6. To re-elect Mr R Last as a director	☐	☐	☐
7. To re-appoint Grant Thornton UK LLP as auditor	☐	☐	☐
8. To authorise the directors to allot shares (other than pursuant to the dividend re-investment scheme)	☐	☐	☐
Special Resolution			
9. To waive pre-emption rights in respect of the allotment of shares (other than pursuant to the dividend re-investment scheme)	☐	☐	☐

Signature **Dated** **2015**

Please refer to notes overleaf.

Please complete, sign and date, detach and return the Form of Proxy in the pre-paid envelope provided.

BRITISH SMALLER COMPANIES VCT2 PLC

Form of Proxy

To be used at the Annual General Meeting of the Company
to be held at 33 St James Square, London, SW1Y 4JS on 15 May 2015 at 12:00 noon

NOTES

1. The Notice of the Annual General Meeting is set out on pages 74 to 76 of the annual report.
2. Any member of the Company entitled to attend and vote at the Annual General Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of that member. Any such appointment can only be made using the procedures set out in these notes and set out in the Notice of the Annual General Meeting. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company but must attend the Annual General Meeting in order to represent his appointer. A member entitled to attend and vote at the Annual General Meeting may appoint the Chairman or another person as his proxy although the Chairman will not speak for the member. A member who wishes his proxy to speak for him should appoint his own choice of proxy (not the Chairman) and give instructions directly to that person.
3. If you wish to appoint a proxy of your own choice delete the words "the Chairman of the General Meeting" and insert the name and address of the person whom you wish to appoint in the space provided.
4. To be valid, a Form of Proxy and the power of attorney or other written authority, if any, under which it is signed or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power and written authority, must be delivered to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours (excluding weekends and public holidays) before the time appointed for holding the Annual General Meeting or adjourned meeting at which the person named in the Form of Proxy proposes to vote. In the case of a poll taken more than 48 hours (excluding weekends and public holidays) after it is demanded, the document(s) must be delivered as aforesaid not less than 24 hours (excluding weekends and public holidays) before the time appointed for taking the poll, or where the poll is taken not more than 48 hours (excluding weekends and public holidays) after it was demanded, be delivered at (and prior to the commencement of) the meeting at which the demand is made.
5. Any alterations to the Form of Proxy must be initialled by the person who has signed the Form of Proxy.
6. In order to revoke a proxy instruction a member will need to inform the Company by sending a signed hard copy notice clearly stating the intention to revoke the proxy appointment to Capita Registrars Limited, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Capita Registrars Limited before the Annual General Meeting or the holding of a poll subsequently thereto. If a member attempts to revoke his or her proxy appointment but the revocation is received after the time specified then, subject to Note 9 below, the proxy appointment will remain valid.
7. In the case of a corporation, this Form of Proxy must be executed under its common seal or signed on its behalf by its attorney or a duly authorised officer of the corporation.
8. In the case of joint shareholders, any one of them may sign. The vote of the person whose name stands first in the register of members will be accepted to the exclusion of the votes of the other joint holders.
9. Completion and return of a Form of Proxy will not preclude a member of the Company from attending and voting in person. If a member appoints a proxy and that member attends the Annual General Meeting in person, the proxy appointment will automatically be terminated.
10. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, the proxy will vote or abstain from voting at his or her discretion on any other matter which is put before the Annual General Meeting.
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

ADVISERS TO THE COMPANY

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Registrars

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Company Secretary

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British Smaller Companies VCT2 plc

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