YFM Equity Partners

British Smaller Companies VCT2 plc

Annual Report

for the year ended
31 December 2015

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 38 active investments reduces the exposure to particular markets and individual companies. To date British Smaller Companies VCT 2 plc has in total realised 38 investments generating total proceeds of £24.8 million. The investment portfolio had an audited valuation of £36.7 million as at 31 December 2015.

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 with a mix of companies operating in traditional industries and 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 unquoted companies. 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 10.
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.
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 five 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 Act 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 Increased by 4.2 per cent to 110.9 pence per ordinary share

Since 31 December 2014 your Company's Total Return has increased by 4.5 pence, from 106.4 pence per ordinary share to 110.9 pence per ordinary share, which includes cumulative dividends paid of 48.0 pence per ordinary share.

Investment Growth

The underlying growth in the investment portfolio was £3.55 million, which represents an increase of 12.6 per cent.

Dividends for the Year

Total dividends paid during the year ended 31 December 2015 were 4.5 pence per ordinary share, which equates to 7.2 per cent of the opening 31 December 2014 Net Asset Value per share. This comprises a final dividend relating to the year to 31 December 2014 of 2.5 pence and an interim dividend for the year to 31 December 2015 of 2.0 pence per ordinary share.

Fundraising

Net proceeds raised from the Offer for Subscription in the year ended 31 December 2015.

FINANCIAL CALENDAR

Results Announced	24 March 2016
Ex-dividend Date	7 April 2016
Record Date	8 April 2016
DRIS Election Date	22 April 2016
Annual General Meeting	6 May 2016
Dividend Paid	9 May 2016

FIVE YEAR SUMMARY

	Year ended 31 December 2015	Year ended 31 December 2014	Year ended 31 December 2013	Year ended 31 December 2012	Year ended 31 December 2011
Income £'000	**1,953**	1,272	689	594	349
Profit before and after taxation £'000	**4,132**	1,157	2,131	852	1,040
Profit per ordinary share	**4.96p**	2.00p	4.73p	2.39p	4.75p
Dividends per ordinary share paid in the year	**4.5p**	4.5p	4.5p	4.5p	4.0p
Cumulative dividend paid per ordinary share	**48.0p**	43.5p	39.0p	34.5p	30.0p
Net assets attributable to ordinary shares £'000	**54,850**	39,333	30,458	27,152	15,982
Net asset value per ordinary share	**62.9p**	62.9p	65.6p	65.5p	68.5p
Total Return per ordinary share	**110.9p**	106.4p	104.6p	100.0p	98.5p

STRATEGIC REPORT

The Company is pleased to present its Strategic Report for the year ended 31 December 2015. 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

Following a significant number of investments in 2014, your Company's portfolio delivered a strong performance during the year to 31 December 2015, producing a return of 12.6 per cent over its opening value, which enabled your Company to maintain its NAV per ordinary share at 62.9 pence whilst paying dividends of 4.5 pence per ordinary share, which represented a yield of 7.2 per cent on the opening NAV per ordinary share.

The changes to the VCT rules, originally announced in the Summer 2015 budget, created a great deal of uncertainty for all venture capital trusts and as a result the Board took the view that they would only complete new investments where they could obtain advanced assurance from HMRC. Consequently, only two new unquoted investments amounting to £3.0 million were completed by your Company in the year, compared to 11 in 2014. These were womenswear retailer Ness (Holdings) Limited, and rail and communications equipment manufacturer KeTech Enterprises Limited.

The new legislation finally received Royal Assent on 18 November 2015. Although HMRC have delayed issuing their final guidance on the new rules it is already clear that the range of companies that your Company can invest in will be more restricted than before and they may have a higher risk profile. The Board and your Company's Investment Adviser have adapted quickly to the new rules and the investment pipeline now contains an encouraging number of new, eligible opportunities. Although the time taken to implement these new rules disrupted the flow of investment in 2015, and the delay in issuing guidance has further disrupted the pattern of new investments, the Board fully expects to make further additions to the portfolio in 2016.

Financial Results

In the year to 31 December 2015 your Company's total return increased by 4.5 pence per ordinary share to 110.9 pence per ordinary share, driven mainly by underlying value growth in the investment portfolio. This equates to an increase of 7.2 per cent on the opening net asset value at 31 December 2014.

During the year your Company has paid total dividends of 4.5 pence per ordinary share, bringing the total cumulative dividends paid since inception to 48.0 pence per ordinary share. The net asset value at 31 December 2015 is 62.9 pence per share as summarised in the table below:

Net Asset Value

	Pence per ordinary share		£000	
NAV at 31 December 2014		62.9		39,333
Net underlying increase in portfolio	4.0		3,548	
Net income	0.7		584	
Issue/buy-back of new shares	(0.2)		15,272	
	4.5		19,404	
Dividends paid	(4.5)		(3,887)	
		-		15,517
NAV at 31 December 2015		**62.9**		**54,850**

The charts on page 12 of these financial statements show in greater detail the movement in total return, net asset value and dividends paid over time.

The investments held at 31 December 2014, amounting to £28.22 million, have over the year increased by £3.55 million to £31.77 million at 31 December 2015. This return comprises a gain over the opening value from the realisation of investments and deferred proceeds of £0.23 million, and a gain on the revaluation of portfolios of £3.32 million. Good value gains were seen across the portfolio, 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 investments.

Shareholder Relations

Dividends

The 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 2014, 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 brings the cumulative dividends paid to 48.0 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 2015. This final dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and if approved will then be paid on 9 May 2016 to shareholders on the register at 8 April 2016. The ex-dividend date is 7 April 2016.

6 May 2016

The Annual General Meeting of the Company will be held at 12:00 noon on 6 May 2016 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 76.

Dividend Reinvestment Scheme ("DRIS")

Your Company operates a DRIS, which gives shareholders the opportunity to re-invest any cash dividends and is open to all shareholders, including those who invested under the recent offers. For the financial year ending 31 December 2015 dividends totalling £0.7 million were invested in your Company by way of the DRIS.

Fundraising

During the first half of the financial year your Company raised a total of £14.7 million, leaving it well funded to take advantage of investment opportunities as they arise. Shortly after the year end a further £3.5 million was raised by way of a €5.0 million top up offer and 5.7 million new shares were allotted. Following this allotment the total number of shares in issue was 92.9 million.

Shareholder communications

As part of its ongoing review of costs, and in line with current Environmental, Social & Corporate Governance best practice, your Company is committed to promoting electronic communications with shareholders. The Board has implemented an electronic communications policy, whereby documents such as the annual report are disseminated via the website www.bscfunds.com, rather than by post. This will save on printing costs and be more environmentally friendly. I am pleased to report that this policy has been well received by shareholders with 84 per cent opting to receive electronic communications.

In addition, the website www.bscfunds.com has recently been refreshed with the emphasis on providing a comprehensive level of information in a user-friendly format.

The next Investor Workshop will take place on 17 May 2016 and is being held at the Conference Centre, The British Library, near Kings Cross station.

Regulatory Changes

The changes that have been introduced during 2015 to the regulations surrounding VCTs (and EIS) have arisen as a result of an EU review of the use of state aided investment in the UK. The EU's guidelines, Risk Capital Finance ("RCF"), set out the operating framework for investment schemes that receive state aid and the income tax reliefs received by VCT investors are classified as state aid. These guidelines were the subject of some revision with the latest set coming into force on 1 January 2015.

The UK legislation that has now been enacted as part of the Finance (No. 2) Act 2015 includes changes to reflect the requirements of the RCF. VCTs have to comply with both the UK legislation and the RCF and are subject to review by both HMRC and HM Treasury and the EU.

The principal changes that have been made are to the definitions of Qualifying Holdings and what VCTs are able to do with non-qualifying money.

In summary Qualifying Holdings are now restricted to companies, less than ten years old if classed as knowledge intensive, or seven years old if not, and into older companies where the VCT investment is either not the first state aided investment the company has received (if they received such money within seven years of first trading) or that the VCT investment is "substantial in relation to the size of the company" and the monies are used to fund the company's growth into new product markets and/or new geographies.

There are also restrictions on the use of funds prior to them being invested in Qualifying Holdings; this is known in the legislation as the liquidity test. This is restricted to shares or securities on a regulated market, certain liquid funds and cash. Notably AIM is excluded, as it is not a regulated market, which means new non-qualifying investments on AIM will not be allowed. Your Company's investment policy will be amended to reflect this.

Impact of the Regulatory Changes

Existing portfolio

The new rules apply to all investments from the date of Royal Assent, 18 November 2015. The Board and the Investment Adviser have reviewed the existing portfolio. Although in some cases further investment into the existing portfolio will be restricted, the Board believes that there will be no material impact on the portfolio as a whole.

New investments

The investment policy and mandate is set out on page 10 of this report. Although the Board believes that the overall pool of potential investments available to the VCT market as a whole will be restricted from previous levels, and may be of higher risk, your Company has always had a policy of investing in small companies to support their growth plans and will be able to continue to follow this policy under the new legislation.

Although the new rules preclude VCTs from providing replacement capital the Investment Adviser manages some non-VCT funds that are free of this restriction, which will allow your Company to participate in investments where an element of replacement capital is needed.

The Board has taken a cautious approach to the new legislation with a policy of only completing investments for which HMRC advanced assurance is given, which itself is only granted for investments that meet the Qualifying Holdings test. It is encouraging that advance assurances are now being given and we have seen investment activity resume. HMRC's detailed guidance is planned to be issued shortly which it is hoped will reduce the level of uncertainty and will further increase the level of advanced assurances that can be given.

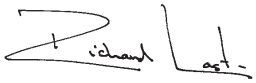
Subsequent Events

On 3 March 2016 your Company realised its investment in Callstream Group Limited for proceeds of £0.7 million, in line with the 31 December 2015 carrying value.

Outlook

While there is still some uncertainty over how HMRC will implement the new VCT rules in practice, the Board is confident that there are sufficient opportunities available to allow your Company to continue investing. However, it is possible that the overall level of investment will be lower than experienced in previous years, and consequently the Board will keep under close review the need for and scale of any future fundraisings. Additionally there may be greater volatility in the income and capital returns from new investments.

Your Company has a strong and well diversified portfolio which continues to deliver a good performance and remains well positioned to deliver future growth.



Richard Last
Chairman

24 March 2016

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 and build the capital value of their investment and maintain 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 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 stocks.

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 meeting the VCT qualifying criteria that require up to £4.5 million of equity. Amounts above £4.5 million may be allocated one third to YFM's institutional co-investment funds and two thirds to the VCTs. Where there are opportunities for the VCTs to co-invest with each other the basis for allocation is 40 per cent to the Company and 60 per cent to British Smaller Companies VCT plc. The Board of the Company has discretion as to whether or not to take up, or 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 securities, surplus cash is primarily held in interest bearing instant access, notice and fixed term bank accounts. Subsequent to the Finance (No. 2) Act 2015 investments can no longer be made in non-qualifying quoted investments traded on an unregulated exchange. This change therefore now excludes AIM investments from this category.

Remuneration Policy

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

Other Key Policies

Details of the Company's policies on the payment of dividends, the dividend re-investment scheme 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.

PROCESSES AND OPERATIONS

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

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

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

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

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

Performance Incentive

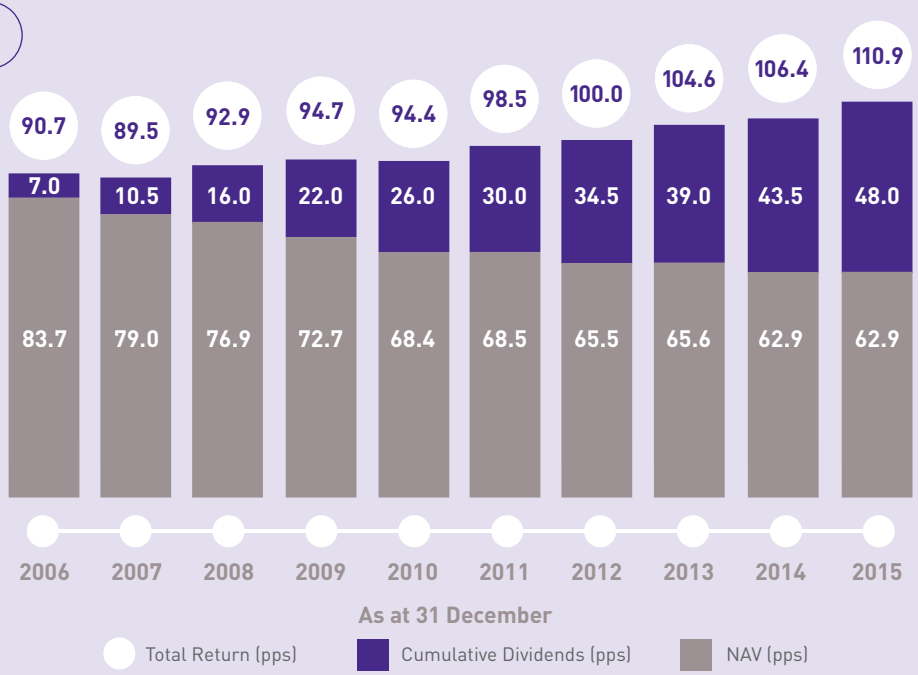
The Investment Adviser will receive an amount (satisfied by the issue of shares) equivalent to 20 per cent of the amount by which the cumulative dividends per ordinary share paid as at the last business day in December in any year, plus the average of the middle market price per ordinary share on the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

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

KEY PERFORMANCE INDICATORS

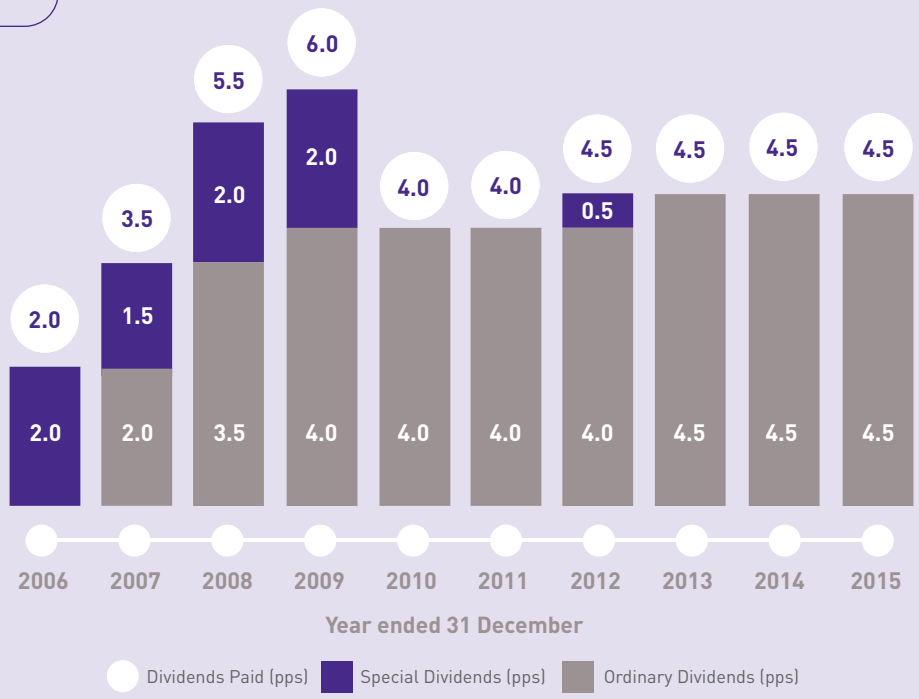
The commonly used benchmarks of performance for VCTs are **total return**, calculated as cumulative dividends paid plus net asset value, and **dividends paid**.

Total Return



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.

Dividends Paid



Shareholder Returns

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

Tax year	Net asset value as at 31 December 2015	Cumulative dividends paid since fundraising[1]	Total return since fundraising/ date of acquisition	Offer price net of initial tax relief	Offer price	Overall return including tax relief since fundraising with participation in the DRIS[2]
	Pence	Pence	Pence	Pence	Pence	Pence
2000/01 and 2001/02	62.90	48.00	110.90	80.00	100.00	167.26
2001/02 and 2002/03	62.90	48.00	110.90	80.00	100.00	167.26
December 2005 issue of shares on acquisition of British Smaller Technology Companies[3]	43.19	32.03	75.22	80.00	100.00	150.47
2009/10 and 2010/11	62.90	26.00	88.90	54.08	77.25	127.97
2010/11 and 2011/12	62.90	22.00	84.90	49.18	70.25	118.65
2012	62.90	18.00	80.90	49.35	70.50	111.65
2012/13 and 2013/14	62.90	13.50	76.40	47.60	68.00	103.46
2013/14 and 2014/15	62.90	9.00	71.90	47.60	68.00	96.35
2014/15 and 2015/16	62.90	4.50	67.40	45.50	65.00	88.74

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 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.
3. Assuming initial offer price and initial tax relief from original subscription in British Smaller Technology Companies VCT plc.

Expenses

Ongoing Charges figure

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

Expenses	Year to 31 December 2015 (%)	Year to 31 December 2014 (%)
Ongoing Charges figure	**2.28**	2.56

Expenses Cap

The total costs incurred by the Company in the year (excluding any performance related fees, trail commission payable to financial intermediaries and VAT) is capped at 2.9 per cent of the total Net Asset Value as at the relevant year end. The treatment of costs in excess of the cap is described in note 3 on page 59. There was no breach of the expenses cap in the current or prior year.

Compliance with VCT Legislative Tests

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

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

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 91.62 per cent (2014: 89.68 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 (2014: 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 6 May 2016.

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 93.07 per cent (2014: 77.54 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 39.14 per cent (2014: 39.95 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 77.63 per cent (2014: 76.92 per cent) of value being in holdings of eligible ordinary shares.

In addition, monies are not permitted to be used to finance buy-outs or otherwise to acquire businesses or 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 4.62 per cent (2014: 5.24 per cent).

Dividends from cancelled share premium

The Finance Act 2014 introduced a restriction with respect to the use of monies in respect of VCT's. 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 1 January 2018.

From the share premium cancellation of £13.55 million on 10 October 2014, £1.34 million remains undistributable until 1 January 2018.

Other

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

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

ii) No more than seven years can have elapsed since the first commercial sale achieved by the business (ten years in the case of a Knowledge Intensive Company), unless:

   a. the business has previously received an investment from a fund that has received state aid, or

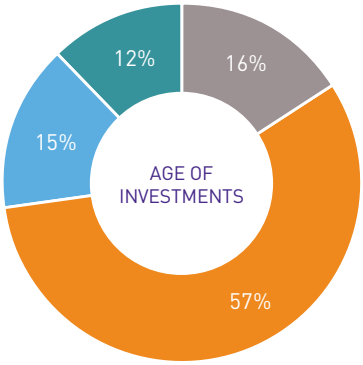
   b. the investment comprises more than 50 per cent of the average of the previous five years' turnover and the funds are to be used in the business to fund growth into new product markets and/or new geographies.

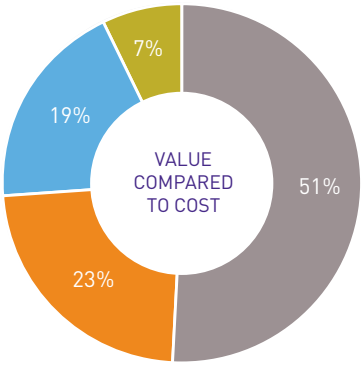
INVESTMENT PERFORMANCE

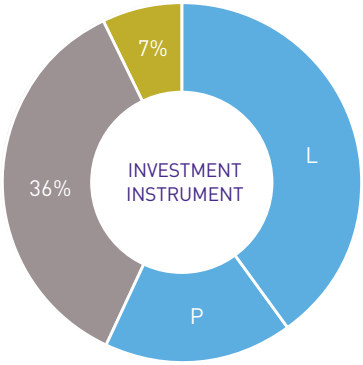
Portfolio structure

This illustrates the broad range of the investment portfolio with over one quarter of the portfolio valuation being held for more than 3 years, whilst 81 per cent is held at cost or above.

64 per cent of the portfolio's value is held in income generating financial instruments, enabling a greater proportion of the Company's future returns to derive from income rather than capital.







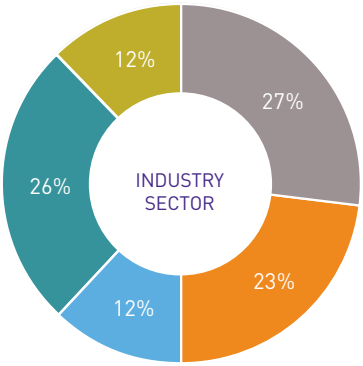
- Less than 1 year
- Between 1 and 3 years
- Between 3 and 5 years
- Greater than 5 years

- Value above cost
- At cost
- Value below cost
- Quoted Companies - portfolio above cost

- L Loan
- P Preference shares
- } 57%
- Ordinary Shares
- Quoted companies

Portfolio diversity

Also included below is a profile of the investment portfolio by industry sector.



- Business Services
- Manufacturing and Industrial
- Healthcare
- Software, IT and Telecommunications
- Retail and Brands

The portfolio delivered a strong performance in the year, with a return of £3.55 million on the opening value and income of £1.95 million that was a 54 per cent increase over the previous year.

Investment Review

The portfolio as a whole delivered an increased value of £3.55 million in the year as shown in Table A below. The majority of this has come from the unquoted portfolio, where the improved profitability of many companies generated a value gain of £2.96 million. This has enabled the Company to maintain its strong investor returns with the NAV per ordinary share being maintained at 62.9 pence after the payment of dividends totalling 4.5 pence per ordinary share. The proposed final dividend is 2.5 pence per ordinary share. Since the year end one follow-on investment of £0.2 million has been completed and the Company realised its investment in Callstream Group Limited for £0.7 million, in line with the 31 December 2015 carrying value.

At 31 December 2015 the investment portfolio was valued at £36.7 million, representing 66.8 per cent of net assets (71.7 per cent at 31 December 2014). Cash at 31 December 2015 was £17.4 million representing 31.8 per cent of net assets (27.0 per cent at 31 December 2014).

Significant Investment Movements

Unquoted

The £2.96 million unrealised valuation gain from the unquoted portfolio is as a result of improved profitability by a number of businesses. The top four value gains in the period are:

- Intelligent Office (via IO Outsourcing Limited) (£1.00 million)
- ACC Aviation (via Newacc (2014) Limited) (£0.42 million)
- DisplayPlan Holdings Limited (£0.34 million)
- GTK (Holdco) Limited (£0.30 million)

These gains were partially offset by two companies which saw profits impacted by difficult trading conditions:

- The Heritage Window Company Holdco Limited (down £0.37 million)
- Ness (Holdings) Limited (down £0.25 million)

Quoted

Overall the quoted portfolio produced a return of £0.36 million. The main contributor was AB Dynamics plc with a gain of £0.44 million, which was offset by Brady plc with a fall of £0.23 million.

TABLE A

Investment portfolio

	£million	%
Unquoted value gain	2.96	83.4
Quoted value gain	0.36	10.1
Gain on disposal over opening value	0.22	6.2
	3.54	97.7
Gain from deferred proceeds	0.01	0.3
Total Value Movement	**3.55**	**100.0**

Your Portfolio

Fair value of portfolio

Increase of 30%

(2014: £28.2 million)

Number of portfolio companies with value of £0.5 million or more

(2014: 21)

Income from the portfolio

Increase of 54%

(2014: £1.27 million)

Level of new investment

(2014: £13.6 million)

Investments

During the year ended 31 December 2015 the Company completed thirteen investments totalling £7.3 million. This comprised new investments of £5.9 million and follow-on investments of £1.4 million. The analysis of these investments is shown in Table B:

TABLE B

Date	Company	Investments made £million		
		New	Follow-on	Total
Jan-15	Gooch & Housego plc*	0.4	-	0.4
Mar-15	Ness (Holdings) Limited	1.0	-	1.0
Mar-15	Brady plc*	-	0.4	0.4
Apr-15	EL Support Services Limited	0.5	-	0.5
Apr-15	NB Technology Services Limited	0.5	-	0.5
Apr-15	OC Engineering Services Limited	0.5	-	0.5
Apr-15	SH Healthcare Services Limited	0.5	-	0.5
Apr-15	SP Manufacturing Services Limited	0.5	-	0.5
Sep-15	Immunobiology Limited	-	0.3	0.3
Nov-15	KeTech Enterprises Limited	2.0	-	2.0
Nov-15	Springboard Research Holdings Limited	-	0.4	0.4
Nov-15	The Heritage Window Company Holdco Limited	-	0.2	0.2
Dec-15	Intamac Systems Limited	-	0.1	0.1
	Invested in the year	5.9	1.4	7.3
	Capitalised interest and dividends			0.1
	Total additions in the year			**7.4**

* Quoted company

Disposal of Investments

During the year to 31 December 2015 the Company received proceeds from disposals, repayments of loans and deferred consideration of £2.48 million. Overall this resulted in a value gain on disposal of investments of £0.23 million compared to 31 December 2014 valuations as set out in Table C.

TABLE C

Disposal of Investments	Net proceeds from sale of investments £million	Opening value 31 December 2014 £million	Gain on opening value £million
Sale of portfolio investments	2.46	2.24	0.22
Deferred proceeds	0.02	0.01	0.01
Total investment disposals	**2.48**	**2.25**	**0.23**

TABLE D

Valuation Policy	Valuation £million	% of portfolio by value
Earnings multiple	23.6	64%
Cost, reviewed for change in fair value	8.0	22%
Price of recent investment, reviewed for change in fair value	2.4	7%
Quoted investments at bid price	2.7	7%
Total	**36.7**	**100%**

The most significant proceeds related to the sale in October 2015 of the Company's investment in software company Insider Technologies (Holdings) Limited for proceeds of £0.77 million.

A further analysis of all investments sold in the year can be found in note 7 to the financial statements on page 65.

Portfolio Composition

As at 31 December 2015 the portfolio had a value of £36.7 million which comprised £34.0 million in unquoted investments (92.7 per cent) and £2.7 million in quoted investments (7.3 per cent). An analysis of the movements in the year is shown on page 21.

The portfolio remains well diversified, with 24 investments having a value greater than £0.5 million, compared to 21 a year earlier.

The charts on page 15 of these financial statements show the composition of the portfolio as at 31 December 2015 by industry sector, age of investment, investment instrument and the valuation compared to cost. This demonstrates representation across a wide range of industry sectors.

Valuation Policy

Unquoted investments are valued in accordance with the valuation policy set out on in note 1 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 2015 the number of investments falling into each valuation category is shown in Table D above:

Summary and Outlook

Your Company is well positioned to take advantage of the opportunities to invest in younger companies seeking development capital and the existing portfolio is delivering good growth.

Whilst the introduction of the most recent legislation will reduce the overall pool of investments for the VCT industry as a whole, there is a good pipeline of opportunities and YFM Private Equity Limited has a strong track record in making development capital investments.

We believe that 2016 will see an increased level of investment which, combined with several good exit prospects, should allow the Board to achieve its aim of improving the Company's total return.

David Hall
YFM Private Equity Limited

24 March 2016

Investment Portfolio Summary at 31 December 2015

Page No	Name of company	Date of initial investment	Location	Industry Sector	Current cost £000	Proceeds to date £000	Valuation at 31 December 2015 £000	Realised & unrealised return to date £000
Unquoted Portfolio								
22	Intelligent Office (via IO Outsourcing Limited)	May-14	Alloa	Business services	1,956	-	3,350	3,350
23	Mangar Health Limited	Jan-14	Powys	Healthcare	1,640	-	2,201	2,201
23	KeTech Enterprises Limited	Nov-15	Nottingham	Software, IT & Telecoms	2,000	-	2,000	2,000
24	ACC Aviation (via Newacc (2014) Limited)	Nov-14	Reigate	Business services	1,379	-	1,801	1,801
24	Gill Marine Holdings Limited	Sep-13	Nottingham	Retail & brands	1,870	-	1,778	1,778
25	DisplayPlan Holdings Limited	Jan-12	Baldock	Business services	70	820	1,753	2,573
25	Springboard Research Holdings Limited	Oct-14	Bedfordshire	Business services	1,646	-	1,646	1,646
26	GTK (Holdco) Limited	Oct-13	Basingstoke	Manufacturing & Ind Services	813	337	1,560	1,897
26	Business Collaborator Limited	Nov-14	Reading	Software, IT & Telecoms	1,340	-	1,384	1,384
27	Immunobiology Limited	Jun-03	Cambridge	Healthcare	2,232	-	1,311	1,311
27	Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	Oct-14	Gwynedd	Manufacturing & Ind Services	1,133	67	1,243	1,310
28	Seven Technologies Holdings Limited	Apr-12	Belfast	Software, IT & Telecoms	1,238	762	1,208	1,970
28	Leengate Holdings Limited	Dec-13	Derbyshire	Manufacturing & Ind Services	934	-	1,143	1,143
29	The Heritage Window Company Holdco Limited	Sep-14	Sevenoaks	Manufacturing & Ind Services	1,468	-	1,101	1,101
29	Harvey Jones Holdings Limited	May-07	London	Retail & brands	911	282	1,099	1,381
	Macro Art Holdings Limited	Jun-14	Cambridgeshire	Business services	731	108	984	1,092
	Intamac Systems Limited	Jun-14	Northampton	Software, IT & Telecoms	828	-	828	828
	Wakefield Acoustics (via Malvar Engineering Limited)	Dec-14	Heckmondwike	Manufacturing & Ind Services	761	-	761	761
	Ness (Holdings) Limited	Mar-15	Edinburgh	Retail & brands	1,012	-	759	759
	Callstream Group Limited	Sep-10	Henley-in Arden	Software, IT & Telecoms	329	265	679	944
	PowerOasis Limited	Nov-11	Swindon	Software, IT & Telecoms	594	-	594	594
	Bagel Nash Group Limited	Jul-11	Leeds	Retail & brands / Manufacturing & Ind Services	655	173	583	756
Other investments £0.5 million and below					3,792	349	4,202	4,551
Total unquoted investments					**29,332**	**3,163**	**33,968**	**37,131**
Quoted Portfolio								
	AB Dynamics plc	May-13	Bradford-on-Avon	Manufacturing & Ind Services	253	-	809	809
	Gooch & Housego plc	Jan-15	Ilminster	Manufacturing & Ind Services	397	-	502	502
Other investments £0.5 million and below					1,573	372	1,373	1,745
Total quoted investments					**2,223**	**372**	**2,684**	**3,056**
					31,555	**3,535**	**36,652**	**40,187**
Full disposals to date					17,707	24,091	-	24,091
Total investment portfolio					**49,262**	**27,626**	**36,652**	**64,278**

Disposal History to 31 December 2015

Name of Company	Date of initial investment	Date of disposal	Industry sector	Cost £000	Proceeds to date £000	Capital return multiple x	Gains (losses) on disposal £000
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	2,515	15.43	2,352
Vibration Technology Limited	Mar-02	Sep-06	Industrial	1,061	2,328	2.19	1,267
Primal Pictures Limited	Dec-05	Sep-12	Medical instruments	961	2,268	2.36	1,307
Sirigen Group Limited	Jun-10	Sep-12	Medical technology	517	1,884	3.64	1,367
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)
Insider Technologies (Holdings) Limited	Aug-12	Oct-15	Software	780	773	0.99	(7)
Pressure Technologies plc	Jun-07	Jul-15	Industrial	302	657	2.18	355
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)
Hargreaves Services plc	Aug-12	Jun-15	Transport	325	160	0.49	(165)
Cambridge Cognition Holdings plc	May-02	Jun-15	Healthcare	240	157	0.65	(83)
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-10	Software	425	-	-	(425)
Purely Proteins Limited	Nov-03	Dec-05	Software	438	-	-	(438)
ExpressOn Biosystems Limited	Oct-02	Dec-05	Healthcare	450	-	-	(450)
Comvurgent Limited	Dec-05	Dec-12	Software	611	-	-	(611)
Silistix Limited	Dec-03	Dec-10	Electronics	1,365	-	-	(1,365)
Total				**17,707**	**24,091**		**6,384**

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

Investment made prior to 31 December 2003

Summary of Investment Portfolio Movement since 31 December 2014

Name of Company	Investment Valuation at 31 December 2014 £000	Disposal Proceeds £000	Additions including capitalised interest and dividends £000	Valuation gains including profits / (losses) on disposal £000	Investment Valuation at 31 December 2015 £000
Intelligent Office (via IO Outsourcing Limited)	2,355	-	-	995	3,350
Mangar Health Limited	2,081	-	-	120	2,201
KeTech Enterprises Limited	-	-	2,000	-	2,000
ACC Aviation (via Newacc (2014) Limited)	1,379	-	-	422	1,801
Gill Marine Holdings Limited	1,732	-	-	46	1,778
DisplayPlan Holdings Limited	2,008	(592)	-	337	1,753
Springboard Research Holdings Limited	1,186	-	460	-	1,646
GTK (Holdco) Limited	1,365	(103)	-	298	1,560
Business Collaborator Limited	1,340	-	-	44	1,384
Immunobiology Limited	987	-	300	24	1,311
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	1,200	(67)	-	110	1,243
Seven Technologies Holdings Limited	924	-	-	284	1,208
Leengate Holdings Limited	1,080	-	-	63	1,143
The Heritage Window Company Holdco Limited	1,268	-	200	(367)	1,101
Harvey Jones Holdings Limited	1,194	(282)	-	187	1,099
Macro Art Holdings Limited	847	(87)	-	224	984
Intamac Systems Limited	750	-	78	-	828
Wakefield Acoustics (via Malvar Engineering Limited)	720	-	41	-	761
Ness (Holdings) Limited	-	-	1,013	(254)	759
Callstream Group Limited	773	-	-	(94)	679
PowerOasis Limited	594	-	-	-	594
Bagel Nash Group Limited	590	(80)	2	71	583
Insider Technologies (Holdings) Limited	522	(773)	-	251	-
Other investments £0.5 million and below	1,193	-	2,500	509	4,202
Quoted companies	2,128	(474)	761	269	2,684
Total	**28,216**	**(2,458)**	**7,355**	**3,539**	**36,652**

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**
£8.3m	£4.4m	£9.6m	£4.4m	£10.0m
2014: £6.5m	2014: £3.2m	2014: £4.9m	2014: £3.7m	2014: £9.9m
Number of companies	**Number of companies**	**Number of companies**	**Number of companies**	**Number of companies**
9.5*	4.5*	13	6	6
2014: 8.5	2014: 2.5	2014: 11	2014: 6	2014: 7

* one company is represented in two industry sectors.

Investment Portfolio

This section describes the business of the active companies in the portfolio with a value greater than £1.0 million in order of valuation at 31 December 2015. 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
www.intelligentofficeuk.com

Cost:	£1,956,000
Valuation:	£3,350,000
Date of initial Investment:	May 2014
Equity held:	17.77%
Valuation basis:	Earnings multiple
Interest:	£39,316 (2014 £25,636)
Dividends:	£84,594 (2014 £55,160)

Year ended 30 September

	2015 £million
Sales	**22.70**
EBITA	**1.52**
Loss before tax	**(0.15)**
Retained losses	**(0.62)**
Net assets	**0.90**

Prior year figures are not applicable for a full financial year.

Intelligent Office is 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

Mangar Health Limited

Powys
www.mangar.co.uk

Cost:	£1,640,000
Valuation:	£2,201,000
Date of initial Investment:	January 2014
Equity held:	14.85%
Valuation basis:	Earnings multiple
Interest:	£131,200 (2014 £120,416)
Dividends:	£6,773

Year ended 31 July	2015 £million
Sales	**7.39**
EBITA	**1.41**
Profit before tax	**0.72**
Retained losses	**(0.25)**
Net assets	**0.74**

Prior year figures are not applicable for a full financial year.

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. Products help facilitate extended independence for elderly users.

KeTech Enterprises Limited

Nottingham
www.ketech.co.uk

Cost:	£2,000,000
Valuation:	£2,000,000
Date of initial Investment:	November 2015
Equity held:	12.83%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£12,319
Dividends:	£7,543

Year ended 31 August	2015 £million
Sales	**6.87**
EBITA	**1.41**

Audited results for the trading company KeTech Group Limited are shown, as KeTech Enterprises Limited has not yet published a full year's accounts.

KeTech is a specialist manufacturer and distributor to the rail communications, security and defence sectors. It has a diverse range of products including train passenger information systems, driver platform safety systems, airport scanners and chemical detection products for the military.

ACC Aviation

(Via Newacc (2014) Limited)

Reigate
www.flyacc.com

Cost:	£1,379,000
Valuation:	£1,801,000
Date of initial Investment:	November 2014
Equity held:	14.70%
Valuation basis:	Earnings based
Interest:	£36,910 (2014 £4,146)
Dividends:	£76,060 (2014 £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 £50m, **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.

Gill Marine Holdings Limited

Nottingham
www.gillmarine.com

Cost:	£1,870,000
Valuation:	£1,778,000
Date of initial Investment:	September 2013
Equity held:	13.81%
Valuation basis:	Earnings multiple
Interest:	£168,300 (2014 £213,487)

Year ended 30 September	**2015 £million**	2014 £million
Sales	**12.34**	12.26
EBITA	**1.52**	1.27
Profit before tax	**0.43**	0.14
Retained profits	**0.39**	0.05
Net assets	**1.95**	1.61

Gill Marine is a manufacturer of technical sailing equipment and clothing. Exports account for over 70 per cent of turnover. The strategy is to develop the brand further and increase its share in existing and new markets, including direct to the customer through its relaunched website.

DisplayPlan Holdings Limited

Baldock
www.displayplan.com

Cost:	£70,000
Valuation:	£1,753,000
Date of initial Investment:	January 2012
Equity held:	12.25%
Valuation basis:	Earnings multiple
Interest:	£19,132 (2014 £45,884)
Dividends:	£16,306

Year ended 31 December	**2014 £million**	2013 £million
Sales	**14.64**	16.50
EBITA	**1.01**	2.20
Profit before tax	**0.64**	1.66
Retained profits	**4.20**	3.49
Net assets	**4.60**	3.89

DisplayPlan provides retail display solutions from design to finished product delivery to branded product manufacturers and UK retailers. Strong profits have been achieved since investment with an emphasis on continuing to broaden its customer base.

Springboard Research Holdings Limited

Bedfordshire
www.spring-board.info

Cost:	£1,646,000
Valuation:	£1,646,000
Date of initial Investment:	October 2014
Equity held:	10.31%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£65,617 (2014 £11,261)
Dividends:	£59,136 (2014 £11,179)

Year ended 31 December	**2014 £million**	2013 £million
Sales	**2.72**	2.37
(LBITA) EBITA	**(0.13)**	0.22

Audited results for a full year for the trading company Springboard Research Limited as Springboard Research Holdings Limited has not yet published a full year's accounts.

Springboard Research is a leading provider of retail performance monitoring; providing footfall, dwell time and analysis of consumer behaviour. 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 means that retailers and landlords are seeking new ways of improving their competitive advantage.

GTK (Holdco) Limited

Basingstoke
www.gtk.co.uk

Cost:	£813,000
Valuation:	£1,560,000
Date of initial Investment:	October 2013
Equity held:	17.70%
Valuation basis:	Earnings multiple
Interest:	£54,669 (2014 £73,301)

Year ended 31 July	**2015 £million**
Sales	**10.61**
EBITA	**0.78**
Profit before tax	**0.29**
Retained profits	**0.33**
Net assets	**0.97**

Prior year figures are not applicable for a full financial year.

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:	£1,384,000
Date of initial Investment:	November 2014
Equity held:	19.38%
Valuation basis:	Earnings multiple
Interest:	£121,400 (2014 £12,306)

Year ended 30 November	**2015 £million**
Sales	**2.86**
EBITA	**0.21**

The above figures have not been audited to date.

Business Collaborator is an established provider of collaboration software hosted on the cloud to the construction sector and a leader in the nascent Building Information Modelling ("BIM") software market. Sales growth is driven by the products ability to deliver cost savings to its customer base of construction firms and asset owners, supported by government regulations.

Immunobiology Limited

Cambridge
www.immbio.com

Cost:	£2,232,000
Valuation:	£1,311,000
Date of initial Investment:	June 2003
Equity held:	26.35%
Valuation basis:	Price of recent investment, reviewed for change in fair value and supporting third party investment

Year ended 31 May	**2015**	2014
	£million	£million
Sales	**-**	-
LBITA	**(1.70)**	(0.81)
Loss before tax	**(1.69)**	(0.79)
Retained losses	**(10.65)**	(9.45)
Net assets	**0.97**	2.18

Immunobiology has developed a new platform technology to produce high efficacy vaccines for infectious diseases including influenza, tuberculosis, meningitis and bacterial pneumonia. It is currently mid way through a phase 1 human trial for its pneumonia vaccine.

Cambrian Park & Leisure Homes Limited
(via Cambrian Lodges Holdings Limited)

Gwynedd
www.cambrianleisurehomes.co.uk

Cost:	£1,133,000
Valuation:	£1,243,000
Date of initial Investment:	October 2014
Equity held:	17.20%
Valuation basis:	Earnings multiple
Interest:	£81,063 (2014 £16,145)
Dividends:	£20,000 (2014 £3,890)

Year ended 31 July	**2015**
	£million
Sales	**10.88**
EBITA	**1.04**

Adjusted for deal-related costs as the investment was made during their reporting year.

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% 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.

Seven Technologies Holdings Limited

Belfast
www.seventechnologies.co.uk

Cost:	£1,238,000
Valuation:	£1,208,000
Date of initial Investment:	April 2012
Equity held:	6.30%
Valuation basis:	Earnings multiple
Dividends:	£24,765
	(2014 £24,765)

Year ended 30 September	**2015**	2014
	£million	£million
Sales	**15.38**	13.36
EBITA (LBITA)	**1.41**	(1.86)
Loss before tax	**(0.96)**	(4.82)
Retained losses	**(7.33)**	(6.13)
Net assets	**13.78**	14.63

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 improved in 2015.

Leengate Holdings Limited

Derbyshire
www.leengatevalves.co.uk

Cost:	£934,000
Valuation:	£1,143,000
Date of initial Investment:	December 2013
Equity held:	7.00%
Valuation basis:	Earnings multiple
Interest:	£78,456
	(2014 £78,456)
Dividends:	£22,416
	(2014 £22,477)

Year ended 31 December	**2014**
	£million
Sales	**7.50**
EBITA	**1.19**
Profit before tax	**0.27**
Retained profits	**0.11**
Net assets	**0.69**

Prior year figures are not applicable for a full financial year.

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 is developing some own-branded products for the agriculture and drinking water markets.

The Heritage Window Company Holdco Limited

Sevenoaks
www.theheritagewindowcompany.co.uk

Cost:	£1,468,000
Valuation:	£1,101,000
Date of initial Investment:	September 2014
Equity held:	28.00%
Valuation basis:	Cost, reviewed for change in fair value
Interest:	£78,871 (2014 £8,416)
Dividends:	£74,156 (2014 £19,504)

Year ended 31 July	**2015 £million**
Sales	**4.41**
LBITA	**(0.34)**

Adjusted for deal-related costs as the investment was made during their reported year.

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.

Harvey Jones Holdings Limited

London
www.harveyjones.com

Cost:	£911,000
Valuation:	£1,099,000
Date of initial Investment:	May 2007
Equity held:	3.44%
Valuation basis:	Earnings multiple
Interest:	£132,255 (2014 £74,756)

Year ended 31 December	**2014 £million**	2013 £million
Sales	**17.15**	15.56
EBITA	**0.20**	0.64
Loss before tax	**(0.53)**	(0.12)
Retained (losses) profits	**(0.49)**	0.04
Net assets	**0.04**	0.57

Harvey Jones is a manufacturer and 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 31 currently and significantly increasing its market share.

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 2014. 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 17 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 page 14.

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

Investment and Strategic

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

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

Regulatory

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

Mitigation - The Investment Adviser and the Company Secretary have procedures in place to ensure recurring Listing Rules requirements are met and actively consult with brokers, solicitors and external compliance advisers as appropriate. The key controls around regulatory compliance are explained on 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 advisors where required. Both the Company and the Investment Adviser maintain appropriate insurances.

Operational

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

Mitigation - The Investment Adviser has a documented 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 unquoted and AIM quoted companies, by their nature, involve a higher degree of risk than investment in companies trading on the main market. In particular, smaller companies often have limited product lines, markets or financial resources and may be dependent for their management on a smaller number of key individuals. The fact that a share is traded on AIM 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.

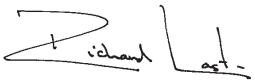
Anti-Bribery and Corruption Policy

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

24 March 2016

DIRECTORS

Name	Background and Experience

Richard Last Chairman

Richard Last (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 and of Tribal Group plc; both are 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, 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 Science Group plc) 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.

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 2015

The directors present their report and audited financial statements of British Smaller Companies VCT2 plc (the "Company") for the year ended 31 December 2015.

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 financial 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 31. 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 50. The profit before and after taxation for the year amounted to £4,132,000 (2014: £1,157,000 profit).

During the year the Company paid a total of £3,887,000 (2014:£2,794,000) in dividends totalling 4.5 pence per ordinary share. A detailed review can be found in note 5 on page 61.

The directors recommend the payment of a final dividend of 2.5 pence per ordinary share (2014: 2.5 pence). A resolution to this effect will be proposed at the Annual General Meeting to be held on 6 May 2016.

The net asset value per ordinary share at 31 December 2015 was 62.9 pence (2014: 62.9 pence). The transfer to and from reserves is given in the Statement of Changes in Equity on page 52.

Going Concern

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.

Statement on Long-term Viability

The AIC's Code of Corporate Governance requires the Board to assess the Company's viability over an appropriate period and the directors consider that for the purpose of this exercise it is not practical or meaningful to look forward over a period of more than three years. Taking into account the Company's current position and principal risks, the directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over that period.

In making their assessment the directors have taken into account the principal risks and their mitigation identified in the strategic report on pages 30 to 31, the nature of the Company's business, including its substantial reserves of cash, the potential of its venture capital portfolio to generate future income and capital proceeds, and the ability of the directors to minimise the level of cash outflows should this be necessary.

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 general meetings) 217,981 ordinary shares of 10 pence each in the market (as disclosed in the table below) for aggregate consideration of £122,814. 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. This authority is recommended for renewal at this year's Annual General Meeting (with all existing authorities to make market purchases of the Company's shares being revoked).

During the year to 31 December 2015 a total of 24,923,680 ordinary shares were issued, of which 1,258,531 were issued under the Company's DRIS. Subsequent to the year end the Company allotted ordinary shares under its Offer for Subscription dated 8 December 2015. Further details are given in note 11 on page 70.

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 15 May 2016 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.

This authority will be replaced by a new authority to issue shares up to an aggregate nominal amount of £3,000,000.

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

Buy-Back of Shares

Date	Number of ordinary shares of 10p bought-back	% of issued share capital at that date	Consideration paid per ordinary share (pence)
7 May 2015	103,845	0.1%	56.86
23 June 2015	114,136	0.1%	55.87

Cancellation of Share Premium

During the year there were no cancellations of share premium (2014: £13.55 million).

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 2015, 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 2015 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. Grant Thornton UK LLP has held office for seven years; in accordance with professional guidelines the engagement partner is rotated after at most five years. The current partner has served for five years and will be replaced by another partner for the year ended 31 December 2016.

The Audit Committee has decided to undertake a tender process for external audit services, and it is intended that this will be completed for the 2016 annual audit.

Annual General Meeting

Shareholders will find the Notice of the Annual General Meeting on pages 76 to 79 of these financial statements.

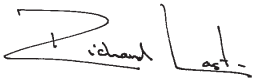
The ordinary business of the meeting includes a resolution (Resolution 8) to be proposed to ensure the directors retain the authority to allot shares in the Company (other than pursuant to its DRIS) until the date of the 2017 Annual General Meeting up to an aggregate nominal amount of £3,000,000 during the period up to 15 months following the date of the 2016 Annual General Meeting.

Also included are two Special resolutions:

Resolution 9 is 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.

Resolution 10 is proposed to empower the directors to buy back up to 13,932,647 ordinary shares.

This report was approved by the Board on 24 March 2016 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 2015 ("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 UK Corporate Governance Code can be found on the website of the FRC 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 2015 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 2014 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 monitoring 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 nine formal Board meetings, three Audit Committee meetings, and six Allotment Committee meetings. The directors met via telephone and electronic conferences on nineteen other occasions.

Meetings attended

	Mr R Last	Mr P C Waller	Mr R M Pettigrew	Total
Board meetings	9	9	9	9
Audit Committee	3	3	3	3
Allotment Committee	1	2	4	6
Telephone and electronic conferences	17	19	18	19
General meetings	1	1	1	1
Total	**31**	**34**	**35**	**38**

As set out on page 38 the quorum for the Allotment Committee is one director.

In addition there were two DRIS allotment meetings which the directors were not required to attend, but which were attended by the company secretary.

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 2015. 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 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 2015 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 seven years; in accordance with professional guidelines the engagement partner is rotated after at most five years. The current partner has served for five years and will be replaced by another partner for the year ended 31 December 2016.

The Audit Committee has decided to undertake a tender process for external audit services, and it is intended that this will be completed for the 2016 annual audit.

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 83.

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 83. 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, 17 October 2014 and 7 August 2015, 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 2015 and up to the date of this report. The Board has carried out a robust review of the principal risks facing the Company, and 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 to 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 robust 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 FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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 or Offer for Subscription 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, and the Board has a reasonable expectation that the Company will continue in operational existence for the foreseeable future.

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 71.

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.

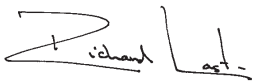
Co-Investment

Typically the Company invests alongside other venture capital funds and other private equity funds advised or managed by the Investment Adviser, 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 68.

Management

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

This report was approved by the Board on 24 March 2016 and signed on its behalf by



Richard Last
Chairman

British Smaller Companies VCT 2 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 49.

Directors' Remuneration Policy

This statement of the Directors' Remuneration Policy took effect following approval 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 advisors 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.

At the last Annual General Meeting over 98 per cent of shareholders who exercised their voting rights voted for the resolution approving the Directors' Remuneration Report, showing significant shareholder approval.

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 other than for Mr P C Waller, who's appointment is terminable by him or the Company on three months notice. 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 Nomination Committees

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 May 2015 by the Board who agreed that the fees should be held constant and reviewed again in a year's time.

Directors' Remuneration for the year ended 31 December 2015 (audited)

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

There are no executive directors (2014: none).

Directors and their Interests (audited)

The directors of the Company at 31 December 2015 and their beneficial interests in the share capital of the Company (including those of immediate family members) were as shown in Table B.

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

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

Directors' remuneration, dividend distribution and share buy-backs are shown in Table C.

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.

Total fees paid (audited)

TABLE A

	2015 £	2014 £
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

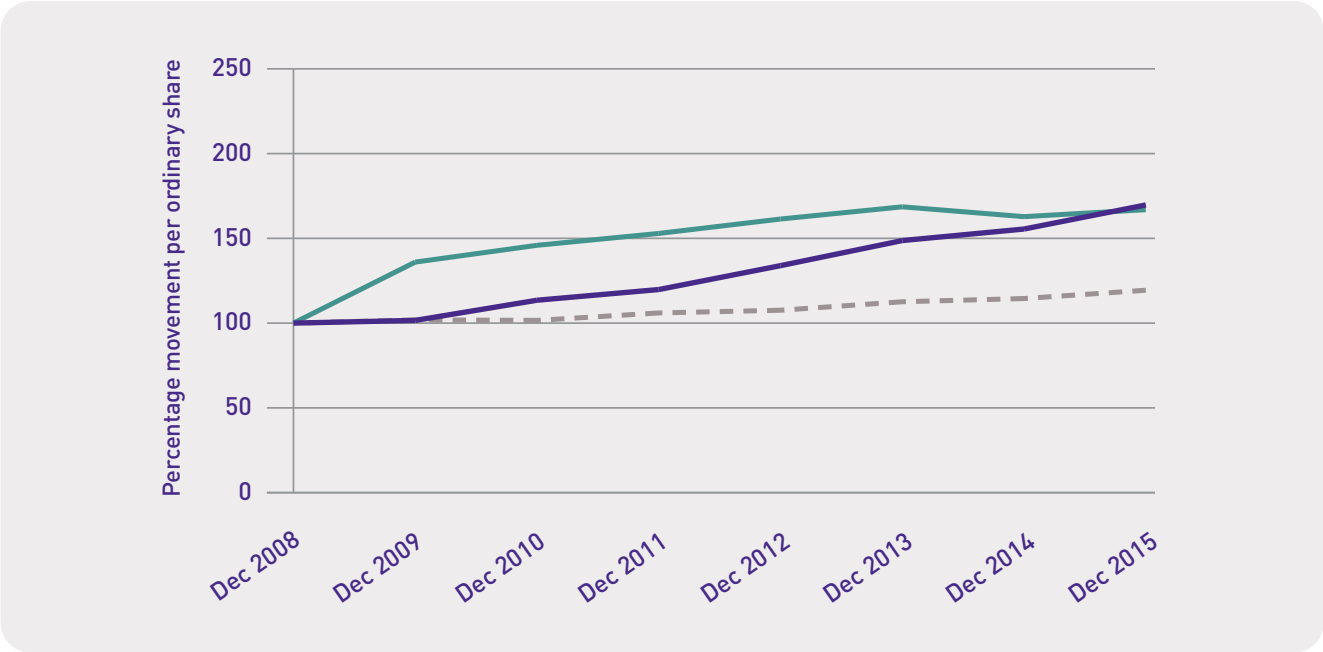
TABLE B

	Number of ordinary shares at:		Percentage of voting rights:	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
R Last	**134,632**	126,882	**0.15%**	0.20%
R M Pettigrew	**80,333**	58,759	**0.09%**	0.09%
P C Waller	**35,560**	25,979	**0.04%**	0.04%

Relative importance of pay

TABLE C

	2015 £	2014 £
Dividends	**3,887,000**	2,794,000
Share buy-backs	**123,000**	75,000
Total directors fees	**67,500**	67,500



VCT Generalist Share Price Total Return* (Source: Index compiled by VCT)

BSC2 Share price return (Dividends reinvested since inception)

BSC2 - Net Asset Value Total Return (NAV plus dividends paid)

Company Performance

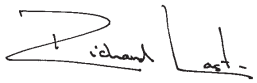
The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Adviser through the advisory agreement, as referred to in the Directors' Report.

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 12.

The graph above shows a comparison over the last seven 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 Association of Investment Companies (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 24 March 2016



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:

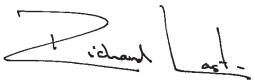
- the financial statements have been prepared in accordance with IFRSs as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company; and
- the annual report includes a fair review of the development and performance of 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 position and 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 24 March 2016.



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 2015 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.

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.

What We Have Audited

British Smaller Companies VCT2 plc's financial statements for the year ended 31 December 2015 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.

Overview of our audit approach

- Overall materiality: £276,000, which represents 0.5% of the Company's total assets; and
- Key audit risk was identified as the valuation of unquoted investments.

Our Assessment of Risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Valuation of unquoted investments Investments are the largest asset in the financial statements, and they are designated as being at fair value through profit and 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 audit work included, but was not restricted to: • assessment of whether the accounting policy is in accordance with the relevant financial reporting standards and that management have accounted for valuations in accordance with the policy; • consideration of whether the valuation methodology applied was consistent with published guidance, in particular the International Private Equity and Venture Capital (IPEVC) valuation guidelines; • assessment of whether the accounting policy is in accordance with relevant financial standards • where the price of a recent transaction had been used to value a holding, obtaining an understanding of the circumstances relating to it and whether it was appropriate to be considered as an arms-length transaction that could be used as a valuation input;

Audit risk	How we responded to the risk
Valuation of unquoted investments (continued)	• where an investment was continued to be carried at cost, obtaining an understanding of the financial performance and future prospects of the investee company and considered whether it was appropriate to continue to recognise at cost; • engaging our internal valuation specialists to assist with reviewing and challenging the reasonableness of both the valuation model used and the assumptions made by the investment advisor to value certain of the unquoted shares that had been valued using a valuation model, including corroboration of financial inputs to the relevant investee company management accounts; and • considering the appropriateness, in accordance with relevant accounting standards, of the disclosures relating to the unquoted investments. The Company's accounting policy on the valuation of unquoted investments is shown in note 1 and related disclosures are included in note 7. The Audit Committee identified the valuation of unquoted investments as a key risk in its report on page 40, where the Committee also described the action that it has taken to address this issue.

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 use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £276,000, which is 0.5% of the Company's total assets. This benchmark is considered the most appropriate because the key driver of the Company is to maximise investments.

Materiality for the current year is higher than the level that we determined for the year ended 31 December 2014 to reflect the new investments made in the year to 31 December 2015.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality. We also determine a lower level of specific materiality for certain areas such as the statement of comprehensive income, director's remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £14,000. 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

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

We conducted our audit in accordance with International Standards on Auditing (ISAs) (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 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 focussed on:

- obtaining an understanding of, and evaluating, internal controls of the Company and the third-party service provider;
- inspecting records and documents held by the third-party service provider; and
- undertaking 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 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

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' statements in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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.

We have nothing to report in respect of the above.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Responsibilities for the financial statements and the audit

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 ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Paul Houghton
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Sheffield

24 March 2016

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 Revenue £000	2015 Capital £000	2015 Total £000	2014 Revenue £000	2014 Capital £000	2014 Total £000
Gains on investments held at fair value	7	**-**	**3,316**	**3,316**	-	111	111
Income	2	**1,953**	**-**	**1,953**	1,272	-	1,272
Gain on disposal of investments	7	**-**	**232**	**232**	-	870	870
Total income		**1,953**	**3,548**	**5,501**	1,272	981	2,253
Administrative expenses:							
Investment Adviser's fee		**(234)**	**(701)**	**(935)**	(173)	(521)	(694)
Other expenses		**(434)**	**-**	**(434)**	(402)	-	(402)
	3	**(668)**	**(701)**	**(1,369)**	(575)	(521)	(1,096)
Profit before taxation		**1,285**	**2,847**	**4,132**	697	460	1,157
Taxation	4	**(152)**	**152**	**-**	(7)	7	-
Profit for the year		**1,133**	**2,999**	**4,132**	690	467	1,157
Total comprehensive income for the year		**1,133**	**2,999**	**4,132**	690	467	1,157
Basic and diluted earnings per ordinary share	6	**1.36p**	**3.60p**	**4.96p**	1.19p	0.81p	2.00p

The accompanying notes on pages 55 to 75 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') 2014 published by The AIC.

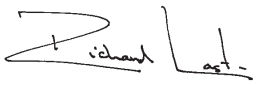
BALANCE SHEET

At 31 December 2015

	Notes	2015 £000	2014 £000
Assets			
Non-current assets			
Financial assets at fair value through profit or loss	7	**36,652**	28,216
Trade and other receivables	8	**678**	417
		37,330	28,633
Current assets			
Trade and other receivables	8	**368**	314
Cash on fixed term deposit	9	**1,992**	-
Cash and cash equivalents	9	**15,444**	10,633
		17,804	10,947
Liabilities			
Current liabilities			
Trade and other payables	10	**(284)**	(247)
Net current assets		**17,520**	10,700
Net assets		**54,850**	39,333
Shareholders' equity			
Share capital	11	**8,939**	6,447
Share premium account		**13,337**	342
Capital redemption reserve		**88**	88
Other reserve		**2**	2
Merger reserve		**5,525**	5,525
Capital reserve		**20,781**	24,822
Investment holding gains and losses		**5,127**	1,507
Revenue reserve		**1,051**	600
Total shareholders' equity		**54,850**	39,333
Net asset value per ordinary share	12	**62.9p**	62.9p

The accompanying notes on pages 55 to 75 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 24 March 2016.



Richard Last
Chairman

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital £000	Share premium account £000	Other reserves* £000	Merger reserve £000	Capital reserve £000	Investment holding gains (losses) £000	Revenue reserve £000	Total equity £000
Balance at 31 December 2013	**4,822**	**4,926**	**90**	**5,525**	**14,568**	**448**	**79**	**30,458**
Revenue return for the year	*-*	*-*	*-*	*-*	*-*	*-*	*697*	*697*
Capital expenses	*-*	*-*	*-*	*-*	*(521)*	*-*	*-*	*(521)*
Investment holding gain on investments held at fair value	*-*	*-*	*-*	*-*	*-*	*111*	*-*	*111*
Realisation of investments in the year	*-*	*-*	*-*	*-*	*870*	*-*	*-*	*870*
Taxation	*-*	*-*	*-*	*-*	*7*	*-*	*(7)*	*-*
Total comprehensive income for the year	-	-	-	-	356	111	690	1,157
Issue of share capital	*1,551*	*9,200*	*-*	*-*	*-*	*-*	*-*	*10,751*
*Issue costs ***	*-*	*(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 losses	-	-	-	-	(961)	961	-	-
Balance at 31 December 2014	**6,447**	**342**	**90**	**5,525**	**24,822**	**1,507**	**600**	**39,333**
Revenue return for the year	*-*	*-*	*-*	*-*	*-*	*-*	*1,285*	*1,285*
Capital expenses	*-*	*-*	*-*	*-*	*(701)*	*-*	*-*	*(701)*
Investment holding gain on investments held at fair value	*-*	*-*	*-*	*-*	*-*	*3,316*	*-*	*3,316*
Realisation of investments in the year	*-*	*-*	*-*	*-*	*232*	*-*	*-*	*232*
Taxation	*-*	*-*	*-*	*-*	*152*	*-*	*(152)*	*-*
Total comprehensive income for the year	-	-	-	-	(317)	3,316	1,133	4,132
Issue of share capital	*2,366*	*13,056*	*-*	*-*	*-*	*-*	*-*	*15,422*
*Issue costs ***	*-*	*(667)*	*-*	*-*	*(92)*	*-*	*-*	*(759)*
Purchase of own shares	*-*	*-*	*-*	*-*	*(123)*	*-*	*-*	*(123)*
Issue of shares – DRIS	*126*	*606*	*-*	*-*	*-*	*-*	*-*	*732*
Dividends	*-*	*-*	*-*	*-*	*(3,205)*	*-*	*(682)*	*(3,887)*
Total transactions with owners	2,492	12,995	-	-	(3,420)	-	(682)	11,385
Realisation of prior year investment holding losses	-	-	-	-	(304)	304	-	-
Balance at 31 December 2015	**8,939**	**13,337**	**90**	**5,525**	**20,781**	**5,127**	**1,051**	**54,850**

The accompanying notes on pages 55 to 75 are an integral part of these financial statements.

Statement of Changes in Equity (continued)
for the year ended 31 December 2015

Reserves available for distribution

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

	Capital reserve £000	Revenue reserve £000	Total £000
Distributable reserves as above	**20,781**	**1,051**	**21,832**
Less : Interest and dividends not yet distributable	*-*	*(774)*	*(774)*
: Deferred proceeds	*(93)*	*-*	*(93)*
: Cancelled share premium not yet distributable	*(1,343)*	*-*	*(1,343)*
Reserves available for distribution* **	**19,345**	**277**	**19,622**

* 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.

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

*** 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 distributable reserves. The reserves total £21,832,000 (2014: £25,422,000) representing a decrease of £3,590,000 (2014: £10,775,000 increase) during the year. 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.

Of the potentially distributable reserves of £21,832,000 shown above, £774,000 (2014: £332,000) relates to interest and dividends receivable from 2018 onwards, £93,000 (2014: £85,000) of deferred proceeds and £1,343,000 (2014: £1,343,000) of share premium which becomes distributable from 1 January 2018.

On filing these financial statements at Companies House the reserves available for distribution will be £19,622,000.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Net cash inflow (outflow) from operating activities		**147**	**(293)**
Cash flows (used in) investing activities			
Purchase of financial assets at fair value through profit or loss	7	**(7,239)**	(14,071)
Proceeds from sale of financial assets at fair value through profit or loss	7	**2,458**	3,679
Deferred consideration	7	**13**	345
Cash placed on fixed term deposits		**(1,992)**	-
Cash maturing from fixed term deposits		**-**	4,500
Net cash (outflow) from investing activities		**(6,760)**	(5,547)
Cash flows from (used in) financing activities			
Issue of ordinary shares		**15,422**	10,510
Costs of ordinary share issues*		**(733)**	(350)
Purchase of own ordinary shares		**(123)**	(75)
Dividends paid		**(3,874)**	(2,719)
Shares issued under DRIS		**732**	436
Share premium cancellation cost		**-**	(9)
Net cash inflow from financing activities		**11,424**	7,793
Net increase in cash and cash equivalents		**4,811**	1,953
Cash and cash equivalents at the beginning of the year		**10,633**	8,680
Cash and cash equivalents at the end of the year	9	**15,444**	10,633

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

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

	2015 £000	2014 £000
Profit before taxation	**4,132**	1,157
Increase in trade and other payables	**24**	50
Increase in trade and other receivables	**(345)**	(511)
Gains on disposal of investments in the year	**(232)**	(870)
Profit on investments held at fair value	**(3,316)**	(111)
Capitalised interest and dividends	**(116)**	(8)
Net cash inflow (outflow) from operating activities	**147**	(293)

The accompanying notes on pages 55 to 75 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 November 2014 (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.

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 and 15, and amendments to IAS 27 and 28. The impact of the new accounting standards and amendments applicable to the Company is not expected to be material to these 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 designed to protect the value of the Company's investment. These 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. These investments are therefore not accounted for using equity accounting, as permitted by IAS 28 'Investments in associates', which gives exemptions from equity accounting for venture capital organisations.

Under IFRS10 "Consolidated Financial Statements", control is presumed to exist when the Company has power over an investee (whether or not used in practice); exposure or rights, to variable returns from that investee, and ability to use that power to affect the reporting entities returns from the investees. The Company does not hold more than 50 per cent of the equity of any of the companies within the portfolio. 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.

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 (IPEVC) Valuation Guidelines ("the Guidelines") issued in December 2015. 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).

1. Principal Accounting Policies (continued)

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 2015.

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 and preference dividends are rolled up and/or payable at redemption then they are 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.

Share Capital and Reserves

Share Capital

This reserve contains the nominal value of all shares allotted under 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 offers for subscription, to the extent that it has not been cancelled.

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 shown within the Statement of Comprehensive Income for the year.

Revenue Reserve

This reserve includes all 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.

1. Principal Accounting Policies (continued)

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 taxable 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 and special 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, as disclosed in note 7 to the financial statements.

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 from a variety of methods and makes assumptions that are mainly based on market conditions at each balance sheet date.

2. Income

	2015 £000	2014 £000
Dividends from unquoted companies	**490**	160
Dividends from AIM quoted companies	**35**	43
Interest on loans to unquoted companies	**1,264**	926
Fixed income Government securities	**-**	7
Income from investments held at fair value through profit or loss	**1,789**	1,136
Interest on bank deposits	**164**	136
	1,953	1,272

The above is stated net of £nil (2014: £46,000) of income in relation to loan interest, which has been fully provided for.

3. Administrative Expenses

	2015 £000	2014 £000
Investment Adviser's fee	**935**	694
Administration fee	**61**	60
Total payable to YFM Private Equity Limited	**996**	754
Other expenses:		
Trail commission	**134**	100
Directors' remuneration	**76**	75
Listing and registrar fees	**57**	43
General expenses	**43**	39
Printing	**24**	47
Irrecoverable VAT	**20**	20
Auditor's remuneration - audit fees (excluding irrecoverable VAT)	**19**	18
	1,369	1,096
Ongoing charges figure	**2.28%**	2.56%

Directors' remuneration comprises only short term benefits including social security contributions.

No fees are payable to the auditor in respect of other services supplied pursuant to legislation (2014: £nil).

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

The key features of the agreement are:

- YFM Private Equity Limited receives an Investment Adviser fee, payable quarterly in advance, calculated at half-yearly intervals as at 30 June and 31 December. The fee is allocated between capital and revenue as described in note 1;
- The annual advisory fee payable to the Investment Adviser is 2.50 per cent of Net Assets up to £16.0 million, 1.25 per cent of Net Assets in excess of £16.0 million and up to £26.667 million, and 2.00 per cent of Net Assets in excess of £26.667 million. Based on the Company's Net Assets at 31 December 2015 of £54.850 million, this equates to 2.00 per cent of Net Assets, or £1,097,000 per annum.

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

Under the IAA YFM Private Equity Limited also provides administrative and secretarial services to the Company for a fee of £46,000 per annum plus annual adjustments to reflect movements in the Retail Prices Index. This fee is charged fully to revenue, and totalled £61,000 for the year ended 31 December 2015 (2014: £60,000).

When the Company makes investments into its unquoted portfolio the Investment Adviser charges that investee an advisory fee. With effect from 1 October 2013 if the average of relevant fees exceeds 3.0 per cent of the total invested into new portfolio companies and 2.0 per cent into follow-on investments over the Company's financial year, this excess will be rebated to the Company. As at 31 December 2015, the Company was due a rebate from the Investment Adviser of £nil (2014: £4,000).

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 by the Company to YFM Private Equity Limited in the year to 31 December 2015 was £996,000 (2014: £754,000).

3. Administrative Expenses (continued)

Under the IAA, YFM Private Equity Limited is entitled to receive fees from investee companies in respect of the provision of non-executive directors and other advisory services. YFM Private Equity Limited is responsible for paying the due diligence and other costs incurred in connection with proposed investments which for whatever reason do not proceed to completion. In the year ended 31 December 2015 the fees receivable by YFM Private Equity Limited from investee companies which were attributable to advisory and directors' and monitoring fees amounted to £340,000 (2014: £583,000).

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

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

As at 31 December 2015 the total of cumulative cash dividends paid and mid-market price was 104.00 pence per ordinary share. No shares have been issued under this agreement.

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 paid to YFM Private Equity Limited under this offer amounted to £344,604.

Under the terms of the offer launched on 8 December 2015, 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 re-investment of intermediary commission. The net amount paid to YFM Private Equity Limited under this offer amounted to £108,200.

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 2015 (audited)".

4. Taxation

	2015			2014		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit before taxation	**1,285**	**2,847**	**4,132**	697	460	1,157
Profit before taxation multiplied by standard small company rate of corporation tax in UK of 20% (2014: 20%)	**257**	**569**	**826**	139	92	231
Effect of:						
UK dividends received	**(105)**	**-**	**(105)**	(41)	-	(41)
Non-taxable profits on investments	**-**	**(709)**	**(709)**	-	(196)	(196)
Excess advisory expenses	**-**	**(12)**	**(12)**	(91)	97	6
Tax charge (credit)	**152**	**(152)**	**-**	7	(7)	-

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

Deferred tax assets of £497,000 calculated at 18% (2014: £560,000 at 20%) in respect of unrelieved management expenses (£2.761 million as at 31 December 2015 and £2.799 million as at 31 December 2014) have not been recognised as the directors do not currently believe that it is probable that sufficient taxable profits will be available against which assets can be recovered.

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

5. Dividends

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

	2015			2014		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Final dividend for the year ended 31 December 2014 of 2.5p (2013: 2.5p) per ordinary share	**268**	**1,885**	**2,153**	7	1,542	1,549
Interim dividend for the year ended 31 December 2015 of 2.0p (2014: 2.0p) per ordinary share	**414**	**1,320**	**1,734**	162	1,083	1,245
	682	**3,205**	**3,887**	169	2,625	2,794
Unclaimed dividends			**(13)**			(75)
Dividends paid in Statement of Cash Flows			**3,874**			2,719

The final year-end dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2014 was paid on 8 June 2015 to shareholders on the register at 8 May 2015.

The interim dividend of 2.0 pence per ordinary share was paid on 28 September 2015 to shareholders on the register as at 28 August 2015.

A final dividend of 2.5 pence per ordinary share in respect of the year to 31 December 2015 is proposed. This dividend has not been recognised in the year ended 31 December 2015 as the obligation did not exist at the balance sheet date.

During the year the Company has received £16,000 (2014: £78,000) from the Registrars in respect of unclaimed dividends. The Company has made efforts to contact the relevant shareholders, with the result that £3,000 (2014: £3,000) has been paid to shareholders in the year. The unclaimed balance is held in a separate bank account until contact can be made with the shareholders affected.

6. Basic and Diluted Earnings per Ordinary Share

The basic and diluted earnings per ordinary share is based on the profit after tax attributable to shareholders of £4,132,000 (2014: £1,157,000 profit) and 83,224,240 (2014: 57,825,246) 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 £1,133,000 (2014: £690,000) and 83,224,240 (2014: 57,825,246) 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 £2,999,000 (2014: £467,000) and 83,224,240 (2014: 57,825,246) ordinary shares being the weighted average number of ordinary shares in issue during the year.

During the year the Company allotted 1,258,531 new ordinary shares in respect of its DRIS, and 23,665,149 new ordinary shares under the offer for subscription with British Smaller Companies VCT plc.

The Company has also repurchased 217,981 of its own shares in the year, and these shares are held in treasury within the capital reserve. The total of 2,128,003 treasury shares has been excluded in calculating the weighted average number of ordinary shares for the period. The Company has no securities that would have a dilutive effect and hence basic and diluted earnings per share are the same.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the Subscription Rights Agreement as set out in Note 3. No such shares have been issued or are currently expected to be issued. There are, therefore, considered to be no potentially dilutive shares in issue at 31 December 2015 or 31 December 2014.

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 bid price.

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

Movements in investments at fair value through profit or loss during the year to 31 December 2015 are summarised as follows:

IFRS13 measurement classification	Level 3	Level 1	
	Unquoted Investments £000	Quoted Equity Investments £000	Total Investments £000
Opening cost	24,593	2,146	**26,739**
Opening investment holding gain (loss)	1,495	(18)	**1,477**
Opening fair value at 1 January 2015	**26,088**	**2,128**	**28,216**
Additions at cost	6,478	761	**7,239**
Capitalised interest and dividends	116	-	**116**
Disposal proceeds	(1,984)	(474)	**(2,458)**
Net profit (loss) on disposal*	312	(89)	**223**
Change in fair value	2,958	358	**3,316**
Closing fair value at 31 December 2015	**33,968**	**2,684**	**36,652**
Closing cost	29,332	2,223	**31,555**
Closing investment holding gain**	4,636	461	**5,097**
Closing fair value at 31 December 2015	**33,968**	**2,684**	**36,652**

* The net profit on disposal in the table above is £223,000 whereas that shown in the Statement of Comprehensive Income is £232,000. The difference comprises deferred proceeds of £9,000 in respect of assets which have been disposed of 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 2015 a total of £30,000 (2014: £30,000) was held on investments yet to be realised in the investment holdings gains and losses reserve.

There were no individual reductions in fair value during the year that exceeded 5 per cent of the total assets of the Company (2014: none).

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, 69 per cent are held on an earnings multiple basis, which have significant judgement applied to the valuation inputs. The table on page 64 sets out the range of Price Earnings multiples and discounts applied in arriving at investments valued on an earnings multiple basis. 24 per cent are recent deals held at cost. The remaining 7 per cent are valued based on previous investment round reviewed for impairment.

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

	Manufacturing & Industrial Services	Retail & Brands	Software, IT and Telecommunications	Healthcare	Business Services
Earnings Multiple					
PE Multiple Range	18.48 - 39.03	17.32 - 39.03	22.16 - 29.04	18.66	27.64 - 32.30
PE Multiple Weighted Average	23.87	21.32	24.64	18.66	29.25
Combined PE and/or Marketability Discount Range	60% – 78%	48% –78%	60% - 64%	52%	60% – 68%
Combined PE and/or Marketability Discount Weighted Average	67%	54%	61%	52%	63%

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 PE multiples) alternatives have been considered which still fall within the IPEVC Guidelines (see page 56). 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 £1.49 million or 10.8 per cent lower. Using the upside alternative the value would be increased by £1.11 million or 8.1 per cent.

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	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**

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

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

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

	Net proceeds from sale £000	Cost £000	Opening carrying value as at 1 January 2015 £000	Profit on disposal £000
Unquoted investments:				
Insider Technologies (Holdings) Limited	773	780	522	251
DisplayPlan Holdings Limited	592	455	531	61
GTK (Holdco) Limited	103	103	103	-
Macro Art Holdings Limited	87	87	87	-
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	67	67	67	-
Bagel Nash Group Limited	80	80	80	-
Harvey Jones Holdings Limited	282	282	282	-
Quoted investments:				
Hargreaves Services plc	159	325	262	(103)
Cambridge Cognition Holdings plc	156	240	140	16
Pressure Technologies plc	159	120	161	(2)
Total proceeds on disposals in the year	**2,458**	**2,539**	**2,235**	**223**
Deferred proceeds:				
Primal Pictures Limited	12	-	12	-
DxS Limited	1	-	-	1
Deferred proceeds received	**13**	**-**	**12**	**1**
Revaluation of deferred proceeds:				
Sirigen Group Limited	-	-	-	8
Total proceeds from quoted and unquoted investments	**2,471**	**2,539**	**2,247**	**232**

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 £93,000 (2014: £85,000) was included within current receivables in respect of deferred consideration.

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

The following disposals took place in 2014:

	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	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**

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 or manager to certain other funds 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 2015 the Company held a significant holding of at least 20 per cent of the issued ordinary share capital, either individually or alongside commonly advised or 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 advised/ 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 (via Cambrian Lodges Holdings Limited)	Manufacturing	100,000	17%	43%
Deep-Secure Limited	Software	49,678	8%	50%
DisplayPlan Holdings Limited	Business Services	1,260	12%	35%
Gill Marine Holdings Limited	Retail	138,137	14%	66%
GTK (Holdco) Limited	Manufacturing	14,603,200	18%	45%
Harvey Jones Holdings Limited	Retail	38,858	3%	30%
The Heritage Window Company Holdco Limited	Manufacturing	1,142,400	28%	70%
Immunobiology Limited	Healthcare	20,109,968	26%	26%
Intamac Systems Limited	Software	1,500,000	12%	34%
Intelligent Office (via IO Outsourcing Limited)	Business Services	106,609	18%	44%
KeTech Enterprises Limited	Software	128,333	13%	39%
Macro Art Holdings Limited	Business Services	100,000	13%	32%
Mangar Health Limited	Healthcare	78,555	15%	42%
Ness (Holdings) Limited	Retail	10,000,000	17%	43%
RMS Group Holdings Limited	Industrial	59,619	3%	23%
Seven Technologies Holdings Limited	Software	619,130	6%	38%
Springboard Research Holdings Limited	Business Services	118,560	10%	25%
Wakefield Acoustics (via Malvar Engineering Limited)	Manufacturing	49,600	14%	35%

* Fully diluted holding

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.

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 2015 and exclude those companies which are in receivership or liquidation.

	British Smaller Companies VCT2 plc £000	British Smaller Companies VCT plc £000	British Smaller Companies EIS Fund £000	The Chandos Fund LP £000	YFM Equity Partners II LP £000	Total £000
AB Dynamics plc	253	380	-	-	-	633
ACC Aviation (via Newacc (2014) Limited)	1,379	2,068	-	-	1,723	5,170
Bagel Nash Group Limited	655	982	-	2,175	-	3,812
Business Collaborator Limited	1,340	2,010	-	-	-	3,350
Callstream Group Limited	329	329	-	-	-	658
Cambrian Park & Leisure Homes Limited (via Cambrian Lodges Holdings Limited)	1,133	1,700	-	-	-	2,833
Deep-Secure Limited	500	1,000	-	2,000	-	3,500
DisplayPlan Holdings Limited	70	130	-	-	-	200
EKF Diagnostics plc	437	563	-	-	-	1,000
EL Support Services Limited	500	500	-	-	-	1,000
Gamma Communication plc	168	253	-	-	-	421
Gill Marine Holdings Limited	1,870	2,500	600	4,000	-	8,970
GTK (Holdco) Limited	813	1,237	250	-	-	2,300
Harvey Jones Holdings Limited	911	1,516	-	223	-	2,650
The Heritage Window Company Holdco Limited	1,468	2,203	-	-	-	3,671
Intamac Systems Limited	828	276	-	2,302	-	3,406
Intelligent Office (via IO Outsourcing Limited)	1,956	2,934	-	-	-	4,890
KeTech Enterprises Limited	2,000	2,000	-	-	1,000	5,000
Leengate Holdings Limited	934	1,401	-	-	-	2,335
Macro Art Holdings Limited	731	1,097	-	-	-	1,828
Mangar Health Limited	1,640	2,460	500	-	-	4,600
NB Technology Services Limited	500	500	-	-	-	1,000
Ness (Holdings) Limited	1,012	1,519	-	-	-	2,531
OC Engineering Services Limited	500	500	-	-	-	1,000
PowerOasis Limited	594	445	-	1,186	-	2,225
RMS Group Holdings Limited	70	180	-	250	-	500
Selima Holding Company Limited	300	600	-	-	-	900
Seven Technologies Holdings Limited	1,238	1,984	370	3,941	-	7,533
SH Healthcare Services Limited	500	500	-	-	-	1,000
SP Manufacturing Services Limited	500	500	-	-	-	1,000
Springboard Research Holdings Limited	1,646	2,469	-	-	-	4,115
TeraView Limited	375	375	-	-	-	750
Wakefield Acoustics (via Malvar Engineering Limited)	761	1,141	-	-	-	1,902

8. Trade and Other Receivables

	2015 £000	2014 £000
Non-current assets:		
Accrued income	**678**	417
Current assets:		
Trade receivables	**186**	313
Less: Allowances for credit losses on trade receivables	**-**	(197)
Prepayments and accrued income	**182**	198
	368	314
Allowance for credit losses on trade receivables:		
Allowances as at 1 January	**197**	151
Trade receivable written off	**(197)**	-
Additions – charged to Statement of Comprehensive Income	**-**	46
Allowances as at 31 December	**-**	197

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 2015, there were no trade receivables that were past due but not impaired (2014: £nil).

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 £279,000 (2014: £116,000). The Company does not hold any collateral as security.

9. Cash and Cash Equivalents

	2015 £000	2014 £000
Cash at bank	**15,444**	10,633
Cash and Cash Equivalents	**15,444**	10,633

At 31 December 2015 a further £1.99 million was also held in a fixed term deposit account which was due to mature in April 2016. 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

	2015 £000	2014 £000
Amounts payable within one year:		
Accrued expenses	**284**	247
	284	247

11. Called-up Share Capital

	2015 Allotted, Called-up and Fully paid £000	2014 Allotted, Called-up and Fully paid £000
Ordinary shares of 10 pence		
Issued: 89,390,578 (2014: 64,466,898) including 2,128,003 shares held in treasury (2014: 1,910,022).	**8,939**	6,447

The movement in the year was as follows:

		Price	Date	Number of shares	Share Capital £000
Total as at 1 January 2015				64,466,898	6,447
Issue of shares	Fundraising	64.75	6 January 2015	4,480,709	448
Issue of shares	Fundraising	65.50-69.13	6 January 2015	3,181,424	318
Issue of shares	Fundraising	64.75	2 February 2015	1,672,709	167
Issue of shares	Fundraising	63.25-66.23	2 February 2015	976,469	98
Issue of shares	Fundraising	64.75	2 March 2015	2,486,374	249
Issue of shares	Fundraising	63.25-66.23	2 March 2015	1,313,296	131
Issue of shares	Fundraising	66.25	30 March 2015	4,267,036	427
Issue of shares	Fundraising	65.00-68.06	30 March 2015	4,145,378	415
Issue of shares	Fundraising	66.25	22 April 2015	911,888	91
Issue of shares	Fundraising	65.00-68.06	22 April 2015	229,866	23
Issue of shares	DRIS	58.71	8 June 2015	677,522	67
Issue of shares	DRIS	57.49	28 September 2015	581,009	58
As at 31 December 2015 (including treasury shares)				**89,390,578**	**8,939**

As part of the Company's 2014/15 and 2015/16 fundraising, bonus shares were offered to new and existing shareholders who subscribed before 28 March 2015. These bonus shares were issued with no corresponding cash proceeds and this 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 217,981 (2014: 132,300) 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 2015.

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.

On 14 January 2016 the Company allotted 5,683,709 new ordinary shares of 10.0 pence each at prices of 63.00 pence or 64.50 pence pursuant to the offer for subscription announced by the Company on 8 December 2015. The net proceeds arising from the offer were £3.5 million.

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 £54,850,000 (2014: £39,333,000) and 87,262,575 (2014: 62,556,876) 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 2015.

The only potentially dilutive shares are those shares which, subject to certain criteria being achieved in the future, may be issued by the Company to meet its obligations under the Subscription Rights Agreement as set out in note 3. No such shares have been issued or are currently expected to be issued. There are therefore considered to be no potentially dilutive shares in issue at 31 December 2015 or 31 December 2014. Consequently, basic and diluted net asset values per ordinary share are equivalent in both the year ended 31 December 2015 and 31 December 2014.

13. Total Return per Ordinary Share

The total return per ordinary share is calculated on cumulative dividends paid of 48.0 pence per ordinary share (2014: 43.5 pence per ordinary share) plus the Net Asset Value as calculated per note 12.

14. Financial Commitments

At 31 December 2015 the Board had committed a total of £0.2 million for investment into existing portfolio companies subject to satisfactory due diligence and legal completion.

15. Related Party Transactions

Mr R Last is chairman and non-executive director of Gamma Communications plc, in which he has a 0.06 per cent equity stake. During the year to 31 December 2015 he received remuneration of £75,000 from Gamma in respect of his services.

16. Events after the Balance Sheet Date

On 3 March 2016 the Company realised its investment in Callstream Group Limited for £0.7 million, in line with the 31 December 2015 carrying value.

Subsequent to the year end the Company allotted a total of 5,683,709 ordinary shares on 14 January 2016 pursuant to the offer detailed under "Fundraising" on page 8, raising net proceeds of £3.5 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

	2015		2014	
	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	**-**	**36,652**	-	28,216
Accrued income	**678**	**-**	332	-
Other debtors	**-**	**-**	85	-
	678	**-**	417	-
Current assets				
Cash and cash equivalents	**15,444**	**-**	10,633	-
Cash on fixed term deposit	**1,992**	**-**	-	-
Trade and other receivables	**186**	**-**	236	-
	17,622	**36,652**	11,286	28,216
Other assets – not financial instruments	**182**	**-**	78	-
	18,482	**36,652**	11,364	28,216

Liabilities as per balance sheet

	2015 Other financial liabilities £000	2014 Other financial liabilities £000
Trade and other payables	**(284)**	(247)
	(284)	(247)

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.

17. Financial Instruments (continued)

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.

Of the Company's investments, 7 per cent are quoted on AIM (2014: 8 per cent). A 5 per cent increase in stock prices as at 31 December 2015 would have increased the net assets attributable to the Company's shareholders and the total profit for the year by £134,000 (2014: £106,000). 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, 93 per cent are in unquoted companies held at fair value (2014: 92 per cent). The valuation methodology for these investments includes the application of externally produced FTSE® PE 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 £2,273,000 (4.1 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 £2,260,000 (4.1 per cent of net assets).

Other valuations are valued at the price of recent investment, reviewed and discounted where the fair value of the investment no longer equates to the cost of the recent investment. 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 less than 0.1 per cent of net assets.

The largest single concentration of risk relates to the Company's investment in Intelligent Office (via IO Outsourcing Limited) which constitutes 6.1 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 1.7 per cent (2014: 2.1 per cent) of the value of net assets.

Comparison of realised proceeds to unrealised valuations

This year the Company is presenting additional information to compare, for all disposals of unquoted investments over the last five years, the realised proceeds to the unrealised valuations one year prior to sale.

	Date of Disposal	Sale proceeds £000	Valuation one year earlier £000	Increase £000
Primal Pictures Limited*	Aug-12	1,880	1,008	872
Sirigen Group Limited *	Aug-12	1,556	517	1,039
Digital Healthcare Limited	Aug-13	1,285	1,156	129
Ellfin Home Care Limited	Dec-14	-	-	-
Waterfall Services Limited	Dec-14	964	489	475
Insider Technologies (Holdings) Limited	Oct-15	772	587	185
		6,457	**3,757**	**2,700**

*Includes estimated value of deferred consideration on exit

17. Financial Instruments (continued)

Interest Rate Risk

The Company's venture capital investments include £14,726,000 (2014: £12,909,000) of loan stock at cost in unquoted companies. The majority of this loan stock at 31 December 2015 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 £883,000 (2014: £200,000) 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.

	2015			2014		
	£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	**19,907**	**8.84**	**35**	17,924	9.30	45
Cash on fixed term deposit	**1,992**	**1.00**	**3**	-	-	-
Combined	**21,899**	**8.13**	**32**	17,924	9.30	45

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 £39,224,000 (2014: £29,410,000) 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.

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.

17. Financial Instruments (continued)

The maturities of the loan stock portfolio are as follows:

	2015 £000				2014 £000			
	<1 year	1-2 years	2-5 years	>5 years	<1 year	1-2 years	2-5 years	>5 years
Unquoted loan investments	**1,822**	**1,403**	**11,245**	**256**	1,028	1,195	10,250	436

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

	2015 £000			2014 £000		
	1 month	3-6 months	> 6 months	1 month	3-6 months	> 6 months
Interest and dividends	**55**	**24**	**-**	-	-	-

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 liquid 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 28.2 per cent (2014: 27.0 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.

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 2015 was £54.85 million (2014: £39.33 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 6 May 2016 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 2015 be received.

(2) That the final dividend of 2.5 pence per ordinary share for the year ended 31 December 2015 be approved.

(3) That the Directors' Remuneration Report for the year ended 31 December 2015 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 up to an aggregate nominal amount of £3,000,000, 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 Resolutions

(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 the allotment for cash of equity securities up to an aggregate nominal amount of £3,000,000, 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.

(10) That in substitution for any existing authority but without prejudice to the exercise of any such power prior to the date hereof, the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Companies Act 2006) of ordinary shares of 10 pence in the capital of the Company provided that:

[1] the maximum aggregate number of ordinary shares that may be purchased is 13,932,647, being 14.99 per cent of the issued ordinary shares as at 24 March 2016;

[2] the maximum price (excluding expenses) which may be paid for an ordinary share is an amount equal to the maximum amount permitted to be paid in accordance with the rules of the UK Listing Authority in force as at the date of purchase;

[3] the minimum price (excluding expenses) which may be paid for an ordinary share is its nominal value;

[4] this authority shall take effect from 6 May 2016 and shall expire on the conclusion of the Company's Annual General Meeting in 2019 or on 6 May 2019, whichever is the later; and

[5] the Company may make a contract or contracts to purchase ordinary shares under this authority before the expiry of the authority, which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

BY ORDER OF THE BOARD

The City Partnership (UK) Limited
Company Secretary

24 March 2016

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.bscfunds.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 4 May 2016 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 4 May 2016 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 24 March 2016, the Company's issued share capital comprised 92,946,284 ordinary shares of 10 pence each with a further 2,128,003 shares held in treasury. Those treasury shares represented 2.2 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 24 March 2016 was 92,946,284. 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 6 May 2016 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) and (3) and (4) _____ of

_____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 6 May 2016 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 Resolutions			
9. To waive pre-emption rights in respect of the allotment of shares (other than pursuant to the dividend re-investment scheme)	☐	☐	☐
10. To authorise the directors to buy back shares.	☐	☐	☐

Signature **Dated** **2016**

Please refer to notes overleaf.

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

If you would like to submit your form of proxy using the web-based voting facility go to www.capitashareportal.com. You will be asked to enter your investor code, surname and postcode to be able to lodge your vote. Your investor code can be found on your share certificate or recent tax voucher.

Form of Proxy

NOTES

1. The Notice of the Annual General Meeting is set out on pages 76 to 79 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. If you would like to submit your form of proxy using the web-based voting facility go to www.capitashareportal.com. You will be asked to enter your investor code, surname and postcode to be able to lodge your vote. Your investor code can be found on your share certificate or recent tax voucher.
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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YFM Private Equity Limited
5th Floor, Valiant Building
14 South Parade
Leeds
LS1 5QS

Registrars
Capita Registrars
The Registry
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Beckenham
Kent
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Solicitors
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1 London Bridge
London
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Stockbrokers
Nplus1 Singer Advisory LLP
1 Bartholomew Lane
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EC2N 2AX

Independent Auditor
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